

CALAVERAS COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2015

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 - 2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 - 9 |
| BASIC FINANCIAL STATEMENTS: | |
| Statement of Net Position - Proprietary Funds | 10 |
| Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds | 11 |
| Statement of Cash Flows - Proprietary Funds | 12 – 13 |
| Statement of Net Position - Fiduciary Funds | 14 |
| Notes to Financial Statements | 15 – 37 |
| REQUIRED SUPPLEMENTAL INFORMATION: | |
| Schedule of the District's Proportionate Share of Net Pension Liability | 38 |
| Schedule of Contributions | 39 |
| 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 <i>GOVERNMENTAL AUDITING STANDARDS</i> | 40 – 41 |

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, 2015, 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, 2015, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

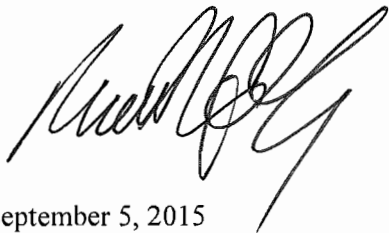
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 9 and the District's Schedule of Proportionate Share of Net Pension Liability and Contributions, on pages 38 – 39 be presented to supplement the basic financial 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

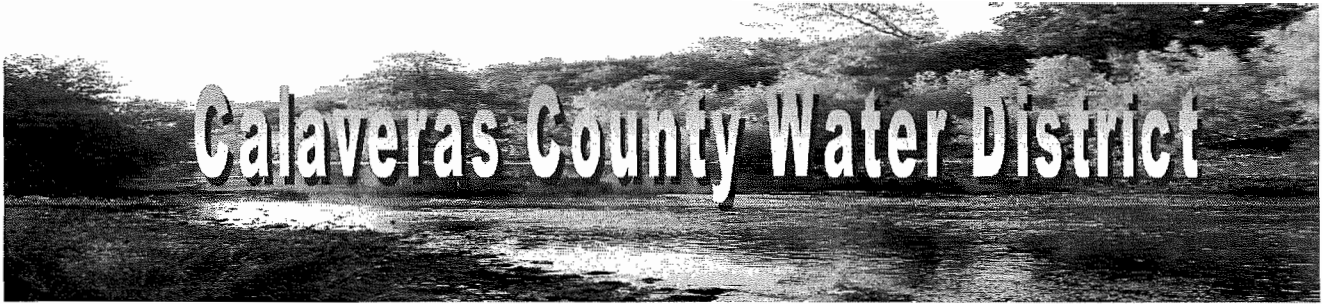
The basic financial statements include summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended June 30, 2014, 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, 2015 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 'Auditor', written in a cursive style.

September 5, 2015



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, 2015. 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, 2015 in comparison to the prior fiscal year. A more detailed narrative analysis follows the listing.

- Total Assets decreased by \$58 thousand
- Total Liabilities increased \$2.8 million
- Net Position decreased by \$4 million
- Operating Revenues decreased \$246 thousand
- Other Operating Expenses decreased by \$666 thousand
- Non-operating Revenues increased by \$722 thousand
- Non-operating Expenses increased by \$4 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 Position | | | | |
| | Fiscal Year 2013-2014 | Fiscal Year 2014-2015 | Dollar Change | Total Percent Change |
| <u>ASSETS</u> | | | | |
| Current and other assets | \$ 30,193,922 | \$ 30,897,156 | \$ 703,234 | 2.33% |
| Capital Assets | 109,235,289 | 108,474,418 | (760,871) | -0.70% |
| Total Assets: | 139,429,211 | 139,371,574 | (57,637) | -0.04% |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | | |
| | - | 745,812 | 745,812 | - |
| <u>LIABILITIES</u> | | | | |
| Long Term debt outstanding | 14,556,431 | 12,131,522 | (2,424,909) | -16.66% |
| Other Liabilities | 1,859,831 | 7,057,016 | 5,197,185 | 279.44% |
| Total Liabilities: | 16,416,262 | 19,188,538 | 2,772,276 | 16.89% |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | |
| | - | 1,872,095 | 1,872,095 | - |
| <u>NET POSITION</u> | | | | |
| Net investment in capital assets | 96,085,632 | 96,342,896 | 257,264 | 0.27% |
| Restricted | 25,664,288 | 27,729,581 | 2,065,293 | 8.05% |
| Unrestricted | 1,263,030 | (5,015,724) | (6,278,754) | -497.12% |
| Total Net Position: | \$ 123,012,949 | \$ 119,056,753 | \$ (3,956,196) | -3.22% |

Analysis of the significant changes shown above is presented on the next page.

Current and Other Assets: The \$703 thousand increase in current and other assets represents, (1) a \$1.8 million increase in cash and investments, (2) a decrease of \$1.4 million in the net pension asset due to the new GASB 68 Accounting Valuation Report (see accompanying financial statement Note 5), (3) a \$301 thousand increase in the net OPEB asset (other post-employment benefits). The Actuarial Valuation Report of July 1, 2014 reported a lower cost for FY 2014-15 (see accompanying financial statement Note 10) creating the new asset for FY 2014-15, and (4) a \$2 thousand net increase in current and non-current assets.

Capital Assets: New assets and construction projects completed during fiscal year 2014-15 added a total of \$3.2 million in assets that included the Fly-In Acres Water System Improvement project, the West Point/Wilseyville Sewer Service Study Project and the Capital Renovation and Replacement (Capital R&R) Programs Poker Flat Lift Station #9, 10 & 11 Replacement Project. A number of projects are ongoing or have been started, and the work in progress amount is \$1.9 million. The Capital R&R Program continues to be successful with the completion and start of various infrastructure projects. Depreciation expense for the year is just under \$4 million bringing the total Capital Assets, net of allowance for depreciation to \$761 thousand less than the previous fiscal year.

Long Term Debt Outstanding: Details of the District’s long-term debt issued are discussed in Note 7 accompanying the Financial Statements. As of June 30, 2015, \$12,131,522 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 Position: The \$4 million decrease in Net Position over the previous year is detailed below:

Operating and Non-operating Financial Highlights

The financial statements present information consolidated for the entire enterprise. Table A-2 compares the District’s operating and nonoperating revenue and expenses for the current and prior fiscal years.

| Table A-2 | | | | |
|---|----------------------------------|----------------------------------|--------------------------|-------------------------------------|
| Condensed Statement of Revenue, Expenses and Changes in Net Position | | | | |
| | Fiscal Year 2013-2014 | Fiscal Year 2014-2015 | Dollar Change | Total Percent Change |
| Operating | | | | |
| Operating Revenues | \$ 12,341,884 | \$ 12,095,932 | \$ (245,952) | -1.99% |
| Operating Expenses | | | | |
| Depreciation Expense | (4,001,360) | (3,962,934) | 38,426 | -0.96% |
| Other Operating Expenses | (13,991,223) | (13,325,502) | 665,721 | -4.76% |
| Net Operating Loss | (5,650,699) | (5,192,504) | 458,195 | -8.11% |
| Non-Operating | | | | |
| Revenues | 8,816,742 | 9,538,346 | 721,604 | 8.18% |
| Expenses | (316,305) | (320,499) | (4,194) | 1.33% |
| Non-operating, net | 8,500,437 | 9,217,847 | 717,410 | 8.44% |
| Change in net assets | 2,849,738 | 4,025,343 | 1,175,605 | 41.25% |
| Beginning net position | 120,163,212 | 123,012,950 | 2,849,738 | 2.37% |
| Prior period adjustments | - | (7,981,540) | (7,981,540) | - |
| Ending net position | \$ 123,012,950 | \$ 119,056,753 | \$ (3,956,197) | -3.22% |

REVENUES

Operating Revenue: The District realized a decrease of (\$245,952) or a -1.99% 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 renovation and replacement 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 monthly water rates outlined below are the rate modifications adopted by the Board of Directors with CCWD Ordinance 2013-01. It should be noted that on March 25, 2015, by Resolution 2015-08, the Board of Directors suspended the September 1, 2015 water and wastewater rate increase until September 1, 2016.

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 2014-15 is \$4 million. With some assets becoming fully depreciated, and the current year asset additions substantially less than the previous year, the current fiscal year 2014-15 depreciation expense is \$38 thousand less than the previous year.

Other Operating Expenses: As shown in Table A-2, there was an overall decrease in other operating expenses of \$666 thousand. While there was a decrease of \$1 million in Salaries and Benefits, Professional Services and Post-employment benefits, there was an increase of \$444 thousand in the remaining Operating Expenses. With the new GASB 68 Pension Reporting, a reduction of \$396 thousand was made to Salaries and Wages. The OPEB Actuarial Valuation Report as of July 1, 2014 and current fiscal year activity reduced the Post-employment benefits by \$301 thousand. The cost to operate the Districts facilities, whether it is utilities, chemicals, equipment maintenance or outside services, continues to rise and the District faces budgeting challenges during the next budget process.

NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue increased by \$722 thousand or 8.18% compared to the prior year. Property Taxes in the County increased compared to the prior year and the District realized an increase of \$241 thousand. Additionally, Capital R&R fee revenue increased by \$1.9 million compared to the prior year. However, these increases were offset by the following reductions to revenue. Interest Revenue for the current year decreased by \$206 thousand while Expansion fee revenue decreased by \$106 thousand as new construction continues to be slow. Most grant projects were completed in FY 2013-14 explaining the grant revenue reduction of \$567 thousand compared to the prior year. Also, Contributed Capital made up of developer projects accepted by the District and the Fly-In Acres construction, decreased by \$417 thousand. All other sources of non-operating revenue decreased over the prior year by \$154 thousand.

Non-Operating Expenses increased by \$4 thousand. There was a \$73 thousand decrease in non-operating expenses due to the write off of bond issuance fees in the prior fiscal year. However, interest expense increased by \$77 thousand, primarily from the Capital R&R loan debt service payments in FY 2014-15.

PRIOR PERIOD ADJUSTMENT

The prior period adjustment (cumulative effect of change in accounting principles) is the result of the new GASB 68 reporting requirement. The primary objective of this statement (GASB 68) is to improve accounting and financial reporting by state and local governments for defined benefit pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources and expense/expenditures. This is further detailed in Note 5 accompanying the financial statements.

ECONOMIC CONDITION AND OUTLOOK

As California's economy continues its recovery from the great recession, the employment picture for both the state and Calaveras County has improved significantly. From an all-time high annual average unemployment rate of 14.5% in 2010, Calaveras County's unemployment rate dropped to an annual average of 8.1% in 2014, and more significantly to 6.2% in June 2015, the last month of FY 2014-15. The state's annual average unemployment rate also dropped during the same timeframe, from 12.2% in 2010 to 7.5% in 2014, and to 6.2% in June 2015 (California Economic Development Department). However these averages remain above the 2014 national average of 6.2% and the June 2015 unemployment rate of 5.3% (U.S. Bureau of Labor Statistics).

The public sector remains Calaveras County's largest employer, accounting for approximately 29% 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 \$42,951 is 16.7% less than the state average of \$50,109.

The District's overall financial status remains strong as the county's economic recovery continues to gain strength. Although construction of new residential units within the District slowed somewhat in FY 2014-15, the county's overall population increased slightly, 2.1% to 45,567 (State Department of Finance 2014 projection). There are also indications that the county's residential and commercial development is coming back to life. Even though the number of new water and wastewater connections declined (28 and 14 respectively) as compared to FY 2013-14 (31 and 20), the number of new connections is still greater than FY 2012-13 when there were only 7 water and 4 wastewater connections, a ten year low.

Prior to 2013 the District struggled to fund the required renovation and replacement of its capital infrastructure – pipeline, lift stations, storage tanks, etc. In response the District adopted a five year rate plan dedicated to funding a staged capital infrastructure renovation and replacement program. The first rate increase in the five year incremental rate plan went into effect September 1, 2013 with an additional increase implemented September 1, 2014. These new revenues, in conjunction with a water and wastewater loan, provided the initial funding for water and wastewater capital projects. Several major construction projects were started in FY 2014-15, and the replacement of a major water transmission pipeline will start in FY 2015-16. The District was also able to secure a grant to assist in funding this transmission line replacement project. These additional funds, along with planning and design delays associated with two major water transmission pipeline projects, reduced the FY 2015-16 Capital R&R cash flow needs and thus the third and final rate increase scheduled for September 1, 2015 was postponed until 2016.

The ongoing drought and the state's mandated water conservation program initiated by Governor Brown continues to affect the District's water operations. Although the District has ample water supplies to meet customer demands, the District, in response to the statewide goal of a twenty-five percent reduction in water diversions, enacted its own Stage 3.5 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 again resulted in decreased water consumption by District's customers. And similar to last year, reduced water consumption has again resulted in decreased water consumption revenues. This continues to put pressure on District resources as a high percentage of the costs required to operate and maintain the water and wastewater systems 24 hours per day are fixed. Regulatory requirements, increased electrical costs, and higher fees and costs have been passed along from vendors to the District. The District continues to implement 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, 2015 WITH SUMMARIZED TOTALS AS OF JUNE 30, 2014

| ASSETS | Water | Sewer | Totals | |
|---|----------------------|----------------------|-----------------------|-----------------------|
| | | | 2015 | 2014 |
| Current assets | | | | |
| Cash and investments | \$ 2,252,312 | \$ (2,600,840) | \$ (348,528) | \$ (117,624) |
| Accounts receivable | 1,858,191 | 888,693 | 2,746,884 | 2,658,294 |
| Taxes receivable | 119,277 | 44,974 | 164,251 | 126,802 |
| Grants receivable | 24,535 | - | 24,535 | 144,135 |
| Interest receivable | 46,162 | 9,262 | 55,424 | 79,690 |
| Prepaid expense | 114,073 | 38,024 | 152,097 | 156,614 |
| Total current assets | <u>4,414,550</u> | <u>(1,619,887)</u> | <u>2,794,663</u> | <u>3,047,911</u> |
| Non-current assets | | | | |
| Deferred charges | 14,260 | 4,753 | 19,013 | 22,299 |
| Note receivable | - | 52,650 | 52,650 | 52,650 |
| Net pension asset | - | - | - | 1,406,773 |
| Net OPEB asset | 225,937 | 75,312 | 301,249 | - |
| Capital assets, net of allowance for depreciation | <u>65,835,093</u> | <u>42,639,325</u> | <u>108,474,418</u> | <u>109,235,289</u> |
| Total non-current assets | <u>66,075,290</u> | <u>42,772,040</u> | <u>108,847,330</u> | <u>110,717,011</u> |
| Restricted assets | | | | |
| Cash and investments | 20,319,290 | 7,366,808 | 27,686,098 | 25,644,492 |
| Interest receivable | 31,681 | 11,802 | 43,483 | 19,797 |
| Due to/(from) other fund | <u>(2,342,159)</u> | <u>2,342,159</u> | - | - |
| Total restricted assets | <u>18,008,812</u> | <u>9,720,769</u> | <u>27,729,581</u> | <u>25,664,289</u> |
| Total assets | <u>88,498,652</u> | <u>50,872,922</u> | <u>139,371,574</u> | <u>139,429,211</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>559,359</u> | <u>186,453</u> | <u>745,812</u> | <u>-</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | 464,321 | 307,120 | 771,441 | 951,495 |
| Deposits payable | 48,910 | 14,939 | 63,849 | 80,341 |
| Accrued interest payable | 59,631 | 20,070 | 79,701 | 70,707 |
| Current portion of long-term debt | <u>1,963,221</u> | <u>507,235</u> | <u>2,470,456</u> | <u>2,432,574</u> |
| Total current liabilities | <u>2,536,083</u> | <u>849,364</u> | <u>3,385,447</u> | <u>3,535,117</u> |
| Non-current liabilities | | | | |
| Long-term debt | 7,295,581 | 2,365,485 | 9,661,066 | 12,123,857 |
| Net pension liability | 3,995,804 | 1,331,935 | 5,327,739 | - |
| Compensated absences | <u>504,822</u> | <u>309,464</u> | <u>814,286</u> | <u>757,288</u> |
| Total noncurrent liabilities | <u>11,796,207</u> | <u>4,006,884</u> | <u>15,803,091</u> | <u>12,881,145</u> |
| Total liabilities | <u>14,332,290</u> | <u>4,856,248</u> | <u>19,188,538</u> | <u>16,416,262</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>1,404,071</u> | <u>468,024</u> | <u>1,872,095</u> | <u>-</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 56,576,291 | 39,766,605 | 96,342,896 | 96,085,632 |
| Restricted for: | | | | |
| Expansion and construction | 18,008,812 | 9,720,769 | 27,729,581 | 25,664,288 |
| Unrestricted | <u>(1,263,453)</u> | <u>(3,752,271)</u> | <u>(5,015,724)</u> | <u>1,263,030</u> |
| Total net position | <u>\$ 73,321,650</u> | <u>\$ 45,735,103</u> | <u>\$ 119,056,753</u> | <u>\$ 123,012,950</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014

| Operating Revenues | Water | Sewer | Totals | |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | | | 2015 | 2014 |
| Water sales and sewer charges | \$ 7,323,241 | \$ 4,200,734 | \$ 11,523,975 | \$ 11,882,737 |
| Water and sewer fees | 464,027 | 107,930 | 571,957 | 459,147 |
| Total operating revenues | <u>7,787,268</u> | <u>4,308,664</u> | <u>12,095,932</u> | <u>12,341,884</u> |
| Operating Expenses | | | | |
| Salaries and benefits | 4,608,561 | 2,793,156 | 7,401,717 | 8,019,147 |
| Repairs, materials and supplies | 626,431 | 767,094 | 1,393,525 | 1,099,066 |
| Utility service | 531,538 | 383,498 | 915,036 | 994,233 |
| Outside services | 564,067 | 361,293 | 925,360 | 1,054,913 |
| Professional services | 459,534 | 9,114 | 468,648 | 714,872 |
| Vehicle and equipment | 204,443 | 179,059 | 383,502 | 352,440 |
| Office expense | 96,854 | 36,360 | 133,214 | 85,913 |
| Travel and training | 40,461 | 24,110 | 64,571 | 53,983 |
| Purchased power | 108,610 | 34,557 | 143,167 | 144,288 |
| Miscellaneous operating expenses | 330,560 | 285,178 | 615,738 | 319,656 |
| Director costs | 82,049 | 28,158 | 110,207 | 135,061 |
| Post-employment benefits | 578,113 | 192,704 | 770,817 | 1,017,651 |
| Depreciation | 2,700,445 | 1,262,489 | 3,962,934 | 4,001,360 |
| Total operating expenses | <u>10,931,666</u> | <u>6,356,770</u> | <u>17,288,436</u> | <u>17,992,583</u> |
| Operating income/(loss) | <u>(3,144,398)</u> | <u>(2,048,106)</u> | <u>(5,192,504)</u> | <u>(5,650,699)</u> |
| Nonoperating Revenues/(Expenses) | | | | |
| Property taxes and assessments | 1,860,885 | 648,737 | 2,509,622 | 2,268,893 |
| Investment income | 157,631 | 107,032 | 264,663 | 470,747 |
| Expansion fees | 331,067 | 134,318 | 465,385 | 571,370 |
| Capital R&R fees | 2,912,325 | 1,070,858 | 3,983,183 | 2,052,406 |
| Power sales | 395,354 | 131,785 | 527,139 | 616,784 |
| Contributed capital revenue | 1,367,545 | 72,570 | 1,440,115 | 1,857,125 |
| Other income | 91,002 | 47,501 | 138,503 | 171,790 |
| Grant revenues | 81,385 | 120,851 | 202,236 | 769,066 |
| Gain/(loss) on sale of assets | 7,500 | - | 7,500 | 38,561 |
| Amortization | - | - | - | (73,148) |
| Interest expense | (236,591) | (83,908) | (320,499) | (243,157) |
| Total nonoperating revenues/(expenses) | <u>6,968,103</u> | <u>2,249,744</u> | <u>9,217,847</u> | <u>8,500,437</u> |
| Net income before transfers | 3,823,705 | 201,638 | 4,025,343 | 2,849,738 |
| Transfers | | | | |
| Transfers in/(out) | <u>34,642</u> | <u>(34,642)</u> | <u>-</u> | <u>-</u> |
| Change in Net Position | <u>3,858,347</u> | <u>166,996</u> | <u>4,025,343</u> | <u>2,849,738</u> |
| Net Position | | | | |
| Beginning of year, as previously reported | 75,449,458 | 47,563,492 | 123,012,950 | 120,163,212 |
| Cumulative effect of change in accounting principles | <u>(5,986,155)</u> | <u>(1,995,385)</u> | <u>(7,981,540)</u> | <u>-</u> |
| Beginning of year, as restated | <u>69,463,303</u> | <u>45,568,107</u> | <u>115,031,410</u> | <u>120,163,212</u> |
| End of year | <u>\$ 73,321,650</u> | <u>\$ 45,735,103</u> | <u>\$ 119,056,753</u> | <u>\$ 123,012,950</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014

| | Water | Sewer | Totals | |
|---|---------------|--------------|---------------|---------------|
| | | | 2015 | 2014 |
| Operating Activities | | | | |
| Receipts from customers and users | \$ 7,746,651 | \$ 4,260,691 | \$ 12,007,342 | \$ 11,995,486 |
| Payments for contractual services and utilities | (1,915,064) | (582,722) | (2,497,786) | (3,097,030) |
| Payments to employees | (5,460,932) | (3,076,598) | (8,537,530) | (8,144,445) |
| Payments to suppliers | (1,489,408) | (1,354,516) | (2,843,924) | (1,911,058) |
| Net cash provided by (used in) operating activities | (1,118,753) | (753,145) | (1,871,898) | (1,157,047) |
| Non-capital Financing Activities | | | | |
| Property taxes and assessments | 1,835,622 | 636,554 | 2,472,176 | 2,295,795 |
| Power sales | 395,354 | 131,785 | 527,139 | 616,784 |
| Other income | 94,902 | 47,501 | 142,403 | 177,208 |
| Grants from outside agencies | 200,985 | 120,851 | 321,836 | 944,454 |
| Transfers (to)/from assessment district | 1,363,645 | - | 1,363,645 | 1,120,334 |
| Transfers (to)/from other funds | 103,642 | (103,642) | - | - |
| Net cash provided by noncapital financing activities | 3,994,150 | 833,049 | 4,827,199 | 5,154,575 |
| Capital and Related Financing Activities | | | | |
| Expansion fees | 331,067 | 134,318 | 465,385 | 571,370 |
| Capital R&R fees | 2,912,325 | 1,143,428 | 4,055,753 | 2,052,406 |
| Purchase of capital assets | (2,109,355) | (1,085,207) | (3,194,562) | (3,505,533) |
| Principal paid on long-term debt | (1,925,164) | (499,746) | (2,424,910) | 4,278,373 |
| Interest paid on long-term debt | (231,961) | (79,545) | (311,506) | (225,514) |
| Net cash provided by (used in) capital and related financing activities | (1,023,088) | (386,752) | (1,409,840) | 3,171,102 |
| Investing Activities | | | | |
| Investment earnings/(losses) | 157,611 | 107,634 | 265,245 | 478,729 |
| Net cash provided by investing activities | 157,611 | 107,634 | 265,245 | 478,729 |
| Net Increase (Decrease) in Cash | 2,009,920 | (199,217) | 1,810,704 | 7,647,359 |
| Cash and Investments | | | | |
| Beginning of year | 20,561,682 | 4,965,185 | 25,526,867 | 17,879,510 |
| End of year | \$ 22,571,602 | \$ 4,765,968 | \$ 27,337,570 | \$ 25,526,869 |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014

| | Water | Sewer | Totals | |
|--|-----------------------|---------------------|-----------------------|-----------------------|
| | | | 2015 | 2014 |
| Cash and investments as presented on Statement of Net Position: | | | | |
| Cash and investments | \$ 2,252,312 | \$ (2,600,840) | \$ (348,528) | \$ (117,624) |
| Cash and investments, restricted | 20,319,290 | 7,366,808 | 27,686,098 | 25,644,493 |
| Total cash and investments | <u>\$ 22,571,602</u> | <u>\$ 4,765,968</u> | <u>\$ 27,337,570</u> | <u>\$ 25,526,869</u> |
| Cash Flows from Operating Activities | | | | |
| Operating income (loss) | \$ (3,144,398) | \$ (2,048,106) | \$ (5,192,504) | \$ (5,650,699) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 2,700,445 | 1,262,489 | 3,962,934 | 4,001,360 |
| (Increase) Decrease in accounts receivable | (40,617) | (47,973) | (88,590) | (349,795) |
| (Increase) Decrease in prepaid expenses | 3,388 | 1,130 | 4,518 | (38,747) |
| (Increase) Decrease in deferred charges | 2,464 | 822 | 3,286 | - |
| (Increase) Decrease in net OPEB asset | (225,937) | (75,312) | (301,249) | - |
| (Increase) Decrease in net pension asset | - | - | - | 266,966 |
| (Increase) Decrease in deferred inflows of resources | 1,404,071 | 468,024 | 1,872,095 | - |
| Increase (Decrease) in accounts payable | (353,208) | 173,154 | (180,054) | 600,708 |
| Increase (Decrease) in deposits payable | (12,569) | (3,923) | (16,492) | 3,398 |
| Increase (Decrease) in compensated absences | 42,238 | 14,760 | 56,998 | 9,762 |
| Increase (Decrease) in net pension liability | (935,271) | (311,757) | (1,247,028) | - |
| Increase (Decrease) in deferred outflows of resources | (559,359) | (186,453) | (745,812) | - |
| Net Cash (Used) by Operating Activities | <u>\$ (1,118,753)</u> | <u>\$ (753,145)</u> | <u>\$ (1,871,898)</u> | <u>\$ (1,157,047)</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2015 WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

| | Special Assessment Districts | |
|----------------------|------------------------------|------------------|
| | 2015 | 2014 |
| ASSETS | | |
| Cash and investments | \$ 1,544,311 | \$ 2,734,260 |
| Interest receivable | 418 | 640 |
| Due from County | 18,777 | 221,776 |
| Total assets | <u>1,563,506</u> | <u>2,956,676</u> |
| LIABILITIES | | |
| Due to bondholders | <u>1,563,506</u> | <u>2,956,676</u> |
| Total liabilities | <u>1,563,506</u> | <u>2,956,676</u> |
| NET POSITION | <u>\$ -</u> | <u>\$ -</u> |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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, 2015

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, 2015

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, 2015, the recorded liability was \$814,286.

Pension Plan – All full-time District employees are members of the State of California Public Employees' Retirement System. The District's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary.

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

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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

New Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the District's financial reporting process. The District became subject to the following GASB Statement for the year ended June 30, 2015:

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

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.

Classification

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

Statement of Net Position

| | |
|---------------------------------|-------------------|
| Cash and investments | \$ (348,528) |
| Restricted cash and investments | 27,686,098 |
| | <u>27,337,570</u> |

Fiduciary Funds

| | |
|----------------------------|----------------------|
| Cash and investments | <u>1,544,311</u> |
| Total cash and investments | <u>\$ 28,881,881</u> |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 2 – Cash and Investments (Continued)

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.

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, 2015

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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 2 – Cash and Investments (Continued)

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:

| <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 | \$ 2,007,180 | \$ 2,080,400 | \$ - | \$ 4,087,580 |
| Medium Term Notes | - | - | 154,969 | 154,969 |
| Certificates of Deposit | 9,090,064 | 298,817 | 624,191 | 10,013,072 |
| Money Market Funds | 3,746,549 | - | - | 3,746,549 |
| LAIF | 8,364,249 | - | - | 8,364,249 |
| Total Investments | <u>\$23,208,042</u> | <u>\$ 2,379,217</u> | <u>\$ 779,160</u> | 26,366,419 |
| Cash with fiscal agent | | | | 522,084 |
| Cash in bank and on hand | | | | 1,993,378 |
| Total Cash and Investments | | | | <u>\$ 28,881,881</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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 2 – Cash and Investments (Continued)

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, 2015 for each investment type:

| | Rating as of Year-End | | Total |
|---------------------------------------|-----------------------|-------------------|----------------------|
| | AA | A-1+ and A-1 | |
| Investments | | | |
| California Local District Obligations | \$ 4,087,580 | \$ - | \$ 4,087,580 |
| Medium Term Notes | - | 154,969 | 154,969 |
| Total Investments | \$ 4,087,580 | \$ 154,969 | 4,242,549 |
| Not rated: | | | |
| LAIF | | | 8,364,249 |
| Money Market Funds | | | 3,746,549 |
| Certificates of Deposit | | | 10,013,072 |
| Cash with fiscal agent | | | 522,084 |
| Cash in bank and on hand | | | 1,993,378 |
| Total Cash and Investments | | | \$ 28,881,881 |

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, 2015:

| Issuer | Investment Type | Amount |
|---|---------------------------------------|--------------|
| South Coast Air Quality Management Bond | California Local District Obligations | \$ 2,007,180 |
| San Bernardino County Pension Bond | California Local District Obligations | 2,080,400 |

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, 2015

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Balance July 1, 2014 | Additions | Retirements | Balance June 30, 2015 |
|--|-------------------------|---------------------|-----------------------|--------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 13,702,378 | \$ - | \$ - | \$ 13,702,378 |
| Construction in progress | 2,232,740 | 2,900,866 | (3,208,745) | 1,924,861 |
| Total capital assets, not being depreciated | <u>15,935,118</u> | <u>2,900,866</u> | <u>(3,208,745)</u> | <u>15,627,239</u> |
| Capital assets, being depreciated | | | | |
| Buildings | 18,603,518 | - | - | 18,603,518 |
| Utility system - infrastructure | 147,686,288 | 3,297,079 | - | 150,983,367 |
| Equipment and machinery | 17,283,434 | 212,863 | (275,008) | 17,221,289 |
| Total capital assets, being depreciated | <u>183,573,240</u> | <u>3,509,942</u> | <u>(275,008)</u> | <u>186,808,174</u> |
| Less accumulated depreciation for | | | | |
| Buildings | (9,201,526) | (357,141) | - | (9,558,667) |
| Utility system - infrastructure | (65,993,107) | (3,037,171) | - | (69,030,278) |
| Equipment and machinery | (15,078,436) | (568,622) | 275,008 | (15,372,050) |
| Total accumulated depreciation | <u>(90,273,069)</u> | <u>(3,962,934)</u> | <u>275,008</u> | <u>(93,960,995)</u> |
| Total capital assets, being depreciated, net | <u>93,300,171</u> | <u>(452,992)</u> | <u>-</u> | <u>92,847,179</u> |
| Total capital assets, net | <u>\$ 109,235,289</u> | <u>\$ 2,447,874</u> | <u>\$ (3,208,745)</u> | <u>\$ 108,474,418</u> |

Note 4 – Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports the following deferred outflows related to net pension liability in the Statement of Net Position:

| | |
|--|-------------------|
| Fiscal year 2014-15 pension contributions subsequent to measurement date | \$ 745,812 |
| Total deferred outflows of resources | <u>\$ 745,812</u> |

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports the following deferred inflows related to net pension liability in the Statement of Net Position:

| | |
|---|---------------------|
| Net differences between projected and actual earnings on pension plan investments | \$ 1,790,367 |
| Adjustment due to differences in proportions | 81,728 |
| Total deferred inflows of resources | <u>\$ 1,872,095</u> |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Defined Benefit Pension Plan

General Information about the 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

As of July 1, 2014, active plan members will pay the full employees member contribution of their CalPERS retirement benefit. The District has three benefit plans; Tier 1 (2.7% @ 55) employees hired on or before July 31, 2012; Tier 2 (2% @ 60) employees hired on or after August 1, 2012; and PEPRA (2% @ 62) employees hired on or after January 1, 2013. The employee's member contribution of their annual covered salary is 8% for Tier 1, 7% for Tier 2 and 6.25% for PEPRA. The District's share of the benefit is 16.691% for Tier 1, 8.005% for Tier 2 and 6.25% for PEPRA employees for FY 2014-15.

The District's total contribution for all plans was \$759,686 for the year ended June 30, 2015.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | <u>Miscellaneous</u> |
|---|--|
| Hire Date | Prior to January 1, 2013 |
| Benefit Formula | <u>2.0% at 55; 2.7% at 55; 2.0% at 60; maximum 2% COLA</u> |
| Benefit Vesting Schedule | 5 years service |
| Benefit Payments | monthly for life |
| Retirement Age | 60 |
| Monthly Benefits, as a % of Eligible Compensation | 2.0%-2.7% |
| Required Employee Contribution Rates | 8.00% |
| Required Employer Contribution Rates | 16.691% |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all employers be determined on an annual basis by the actuary and shall be effective on July 1 following the notice of change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2015, the contributions recognized as part of the pension expense is as follows:

| | |
|--------------------------|------------|
| Contributions – employer | \$ 745,812 |
| Contributions – employee | \$ 355,350 |

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

| | |
|---|---|
| | <u>Proportionate Share of Net Pension Liability</u> |
| Total Net Pension Liability - Miscellaneous | \$ 5,327,739 |

General Information about the Pension Plan

The District’s net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans 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, 2013 and 2014 was as follows:

| | |
|------------------------------|----------------------|
| | <u>Miscellaneous</u> |
| Proportion – June 30, 2013 | 0.22216% |
| Proportion – June 30, 2014 | 0.21557% |
| Change – Increase/(Decrease) | (0.00660%) |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2015, the District recognized pension expense of \$625,067. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date | \$ 745,812 | \$ - |
| Adjustment due to differences in proportions | - | (81,728) |
| Net differences between projected and actual earnings on pension plan investments | - | (1,790,367) |
| Total | <u>\$ 745,812</u> | <u>\$ (1,872,095)</u> |

The \$745,812 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year Ended June 30</u> | |
|-------------------------------|-----------------------|
| 2016 | \$ (476,781) |
| 2017 | (476,781) |
| 2018 | (470,942) |
| 2019 | (447,591) |
| Total | <u>\$ (1,872,095)</u> |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Discount Rate | 7.5% (net of administrative expenses) |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | Varies by Entry Age and Service ¹ |
| Investment Rate of Return | 7.50% ² |
| Mortality | Derived using CalPERS' Membership ³ Data for all Funds |

¹ Varying by service, including inflation

² Net of pension plan investment expenses, including inflation

³ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation was based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

Discount rate – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were 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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1-10 ¹ | Real Return Years 11+ |
|-------------------------------|-----------------------------|--|--------------------------|
| Global Equity | 47% | 5.25% | 5.71% |
| Global Fixed Income | 19% | 0.99% | 2.43% |
| Inflation Sensitive | 6% | 0.45% | 3.36% |
| Private Equity | 12% | 6.83% | 6.95% |
| Real Estate | 11% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3% | 4.50% | 5.09% |
| Liquidity | 2% | -0.55% | -1.05% |
| Total | <u>100%</u> | | |

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 each Plan, calculating using the discount rate of each 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 (6.50%) or 1-percentage point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|-----------------------|------------------------|--|------------------------|
| Net Pension Liability | \$ 9,492,383 | \$ 5,327,739 | \$ 1,871,480 |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issue CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2015, the District has no amount to report as outstanding contributions to the pension plan for the year ended June 30, 2015.

Note 6 – 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 by November 23, 2015.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 7 – 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.

| | <u>Balance</u> <u>July 1, 2014</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2015</u> | <u>Current</u> <u>Portion</u> |
|--|---------------------------------------|------------------|-----------------------|--|----------------------------------|
| Series 2013 Refunding Water Revenue Loan | \$ 5,532,137 | \$ - | \$ (1,671,292) | \$ 3,860,845 | \$ 1,695,476 |
| Series 2013 Refunding Sewer Revenue Loan | 238,922 | - | (72,180) | 166,742 | 73,224 |
| Umpqua Bank 2014 Water Revenue Loan | 4,061,933 | - | - | 4,061,933 | - |
| Umpqua Bank 2014 Sewer Revenue Loan | 2,337,528 | - | (279,004) | 2,058,524 | 279,004 |
| Vac-Con Truck Loan | 266,050 | - | (63,937) | 202,113 | 65,759 |
| Wallace WestAmerica Loan | 112,641 | - | (8,764) | 103,877 | 8,749 |
| U.S. Bureau of Reclamation Note | 600,447 | - | (54,680) | 545,767 | 65,207 |
| Umpqua Bank Pension Loan | <u>1,406,773</u> | <u>-</u> | <u>(275,052)</u> | <u>1,131,721</u> | <u>283,037</u> |
| Total Business-Type Activity Debt | <u>\$ 14,556,431</u> | <u>\$ -</u> | <u>\$ (2,424,909)</u> | <u>\$ 12,131,522</u> | <u>\$ 2,470,456</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, 2015

Note 7 – 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, 2015, is \$545,767.

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. Four certificates of deposit in the amount of \$1,213,072 will mature by June 30, 2019.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 7 – 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, 2015 were as follows:

| Years ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|---------------------|-------------------|---------------------|
| 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 | 1,608,529 | 72,984 | 1,681,513 |
| 2021-2023 | 1,793,677 | 45,041 | 1,838,718 |
| | <u>\$12,131,522</u> | <u>\$ 824,277</u> | <u>\$12,955,799</u> |

Note 8 – 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 9 – 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, 2015, were as follows:

| <u>District</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| Westpoint Acres #3A | \$ 43,000 |
| Arnold Sewer #9S4 A/B | 169,000 |
| Saddle Creek Refinance 2001 | 2,905,000 |
| DaLee/Cassidy | 835,000 |
| Fly-In Acres | 1,995,000 |
| Total | <u>\$ 5,947,000</u> |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 9 – 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 (\$91,887 at June 30, 2015) will be disbursed to the bondholders and La Contenta SAD will be dissolved.

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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 10 – Post-Employment Health Care Benefits (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 of 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 (OPEB cost) | \$ 694,176 |
| Interest on net OPEB obligation | 5,339 |
| Adjustment to annual required contribution | <u>(4,972)</u> |
| Annual OPEB cost (expense) | 694,543 |
| Contributions made | <u>1,072,066</u> |
| Increase (decrease) in net OPEB obligation | (377,523) |
| Net OPEB obligation (asset), beginning of year | <u>76,274</u> |
| Net OPEB obligation (asset), end of year | <u>\$ (301,249)</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 2015 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) |
|-----------------------|---------------------|--------------|--|--|
| 2013 | \$ 1,012,714 | \$ 979,363 | 96.7% | \$ 42,249 |
| 2014 | \$ 1,051,676 | \$1,017,651 | 96.8% | \$ 76,274 |
| 2015 | \$ 694,543 | \$1,072,066 | 154.36% | \$ (301,249) |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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

Funding Status and Progress

The funded status of the liability as of June 30, 2015, 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 |
|-------------------|-----------------------------|-----------------|------------------------------------|--------------|------------------------|------------------------|
| 6/30/2013 | \$ 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% |
| 6/30/2015 | \$ 10,368,516 | \$4,633,640 | \$ 5,734,876 | 44.7% | 4,776,187 | 120.1% |

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 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.

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 increments of .3% each year to an ultimate rate of 5.0%. 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, 2015 is 24 years.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2015 that required recognition or disclosure in such financial statements.

Note 14 – Cumulative Effect of Change in Accounting Principles

During the year the District had a cumulative effect of change in accounting principles in both the Water and Sewer Fund in the amount of \$5,896,155 and \$1,995,385, respectively, to record the opening balance of net pension liability due to the implementation of GASB No. 68, for a cumulative effect of change in accounting principles of \$7,981,540. The net effect of this adjustment decreased the District's net position by \$7,981,540.

REQUIRED SUPPLEMENTAL INFORMATION

CALAVERAS COUNTY WATER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST 10 YEARS* AS OF JUNE 30, 2015

| | <u>Miscellaneous 2015</u> |
|---|-------------------------------|
| Proportion of the net pension liability | 0.08562% |
| Proportionate share of the net pension liability | \$ 5,327,739 |
| Covered - employee payroll | \$ 4,793,906 |
| Proportionate share of the net pension liability as a percentage of covered-employee payroll | 111.14% |
| Plan's fiduciary net position | \$26,064,984 |
| Plan's fiduciary net position as a percentage of the Total Pension Liability | 83.03% |

*Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

CALAVERAS COUNTY WATER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS* AS OF JUNE 30, 2015

| | Miscellaneous 2015 |
|---|-----------------------|
| Contractually required contribution (actuarially determined) | \$ 725,590 |
| Contributions in relation to the actuarially determined contributions | <u>(725,590)</u> |
| Contributions deficiency (excess) | <u>\$ -</u> |
| | |
| Covered-employee payroll | \$ 4,793,906 |
| | |
| Contributions as a percentage of covered-employee payroll | 15.14% |

*Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

Notes to Schedule of Contributions

Valuation Date 6/30/2013

Methods and assumptions used to determine contribution rates:

| | |
|---------------------------|--|
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% (net of administrative expenses) |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | Varies by Entry Age and Service |
| Investment Rate of Return | 7.50% |
| Mortality | Derived using CalPERS' Membership Data for all Funds |

**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, 2015, 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, 2015.

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.

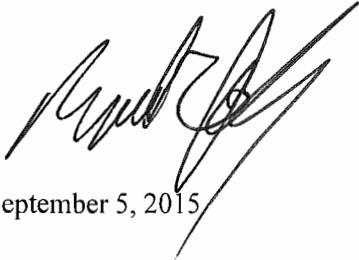
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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 'A. J. Smith', written over the date.

September 5, 2015