

CALAVERAS COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2016

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TABLE OF CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis	4
<u>Basic Financial Statements</u>	
Balance Sheet	14
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17
Statement of Fiduciary Net Position – Assessment District Agency Fund.....	19
Notes to the Basic Financial Statements.....	20
<u>Required Supplementary Information</u>	
Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions to the Pension Plan – Miscellaneous Plan (Unaudited)	43
Schedule of Funding Progress for the Other Postemployment Benefits Plan (Unaudited).....	44
<u>Other Supplementary Information</u>	
Combining Schedule of Fiduciary Net Position – Assessment District Agency Fund	45
Debt Service Coverage Ratio – Water Fund.....	47
Debt Service Coverage Ratio – Sewer Fund.....	48
<u>Compliance Report</u>	
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>Government Auditing Standards</i>	49



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund and the fiduciary funds of the Calaveras County Water District (the District) as of and for the year ending June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the fiduciary funds of the District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Prior Year Comparative Information

The prior year comparative totals have been derived from the District's June 30, 2015 financial statements, which were audited by other auditors whose report dated September 5, 2015 expressed an unmodified opinion on those statements and included an emphasis-of-matter paragraph describing the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of Statement No. 68*. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ending June 30, 2015, from which the summarized information was derived.

As part of our audit of the June 30, 2016 financial statements, we also audited adjustments to the statement of cash flows described in Note M that were applied to restate the June 30, 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the June 30, 2015 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2015 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the proportionate share of the net pension liability, schedules of contributions to the pension plans and schedule of funding progress of the other postemployment benefits plan, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance.

To the Board of Directors
Calaveras County Water District

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

October 20, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Calaveras County Water District's (“the District”) Audited Financial Statements provides management’s discussion and analysis of the District’s financial performance for the period ending June 30, 2016. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

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

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

ORGANIZATION AND BUSINESS

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

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

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

The District currently provides water service to approximately 13,075 residential and commercial customers in five water service areas. With the exception of the Wallace service area, the District uses surface water from the Mokelumne, Calaveras and Stanislaus rivers to service its customers. Wallace customers are served by groundwater pumped from wells owned and operated by the District. The District also maintains four major wastewater service areas that provide sanitary sewer services to approximately 4,807 customers.

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District’s Basic Financial Statements are designed to provide readers with a broad overview of the finances of the Calaveras County Water District. There are four components to the Basic Financial Statements: Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Compliance Report.

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

REQUIRED FINANCIAL STATEMENTS

The required financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows, and offer short and long-term financial information about the District’s activities.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, the Basic Financial Statements also present certain required supplemental information which follows the notes to the financial statements. This includes a *Schedule of the District’s Proportionate Share of Net Pension Liability* and a *Schedule of Contributions to the Pension Plan*.

FINANCIAL ANALYSIS OF THE DISTRICT

The District analyzes changes in its major funds (water, sewer and public financing authority) “in total.” For the next reporting period, fiscal year 2016-17, the District will consider analyzing changes in each major fund as well as “in total.” Until that change occurs, the financial analysis of the funds are “in total.”

The following are some of the key financial highlights for the fiscal year ended June 30, 2016 in comparison to the prior fiscal year. Certain reclassifications were made to the June 30, 2015 comparative totals to conform with current presentations (for additional information please see Note A in the *Notes to the Basic Financial Statements*). A more detailed narrative analysis follows the listing.

- The District’s Net Position, total assets less total liabilities, increased by \$3.9 million
- Operating Revenues decreased by \$226 thousand
- Non-operating Revenues, led by higher property tax revenues, increased by \$160 thousand
- Operating Expenses increased by \$379 thousand
- Non-operating Expenses increased by \$15 thousand
- Capital assets, net of depreciation, were \$108.3 million, a \$220 thousand decrease
- Long term liabilities, as reported in Note D, decreased 21%, or \$2.2 million

BALANCE SHEETS

The District’s condensed balance sheets are displayed below:

Table A-1
Condensed Balance Sheets
(in millions)

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Current assets	\$ 13.0	\$ 13.1	\$ (0.1)	-1.08%
Noncurrent Assets	21.9	19.7	2.2	9.86%
Other noncurrent and OPEB assets	0.7	0.4	0.4	50.25%
Capital assets, net of accumulated depreciation	108.3	108.5	(0.2)	-0.20%
Deferred outflows of resources	1.3	0.7	0.5	40.79%
Total assets and deferred outflows of resources	145.1	142.5	2.7	1.85%
Current liabilities	4.6	4.1	0.5	11.46%
Noncurrent liabilities	16.9	17.5	(0.5)	-3.20%
Deferred inflows of resources	0.7	1.9	(1.2)	-170.87%
Net position	122.9	119.1	3.9	3.16%
Total liabilities, deferred inflows and net position	145.1	142.5	2.7	1.85%
Detail of net position				
Net investment in capital assets	99.2	96.3	2.9	2.92%
Restricted for expansion and construction	15.7	13.7	2.0	12.99%
Restricted for debt service	0.7	0.7	-	0.00%
Unrestricted	7.3	8.3	(1.1)	-14.41%
Total net position:	\$ 122.9	\$ 119.1	\$ 3.9	3.16%

Current Assets

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

As of June 30, 2016, current assets totaled \$13.0 million and were \$0.1 million lower than the prior year.

Noncurrent Assets

Includes restricted cash, investments and other receivables.

As of June 30, 2016, noncurrent assets totaled \$21.9 million and were \$2.2 million higher than FY 2014-15, mainly due to restricted cash and investments increasing. This was primarily the result of the collection of restricted revenues that were not spent.

Other Noncurrent and OPEB Assets

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

Other noncurrent and OPEB assets totaled \$0.7 million, a \$0.4 million increase from the prior year. For more information on OPEB see Note J of the *Notes to the Basic Financial Statements*.

Net Capital Assets

Includes plant, land, and construction in progress, net of accumulated depreciation and amortization.

As of June 30, 2016, net capital assets totaled \$108.3, which is \$220 thousand less than FY 2014-15.

Deferred Outflows of Resources

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

Deferred outflows of resources totaled \$1.3 million. The increase of \$0.5 million is due to an increase in the deferred outflows of resources related to the CalPERS pension plan, which was mainly due to an increase in the District’s proportion of the cost sharing pool in which it participates. For more information on pension liability, see Note I of the *Notes to the Basic Financial Statements*.

Current Liabilities

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

As of June 30, 2016, current liabilities totaled \$4.6 million, \$0.5 million higher than the prior year, due primarily to higher accounts payable and an interfund payable from the Water Fund to the Sewer Fund to finance a short-term cash deficit.

Noncurrent Liabilities

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

As of June 30, 2016, noncurrent liabilities totaled \$16.9 million and were \$0.5 million lower than the prior year. Primary factors include a decrease in long-term debt due to scheduled debt payments of \$2.1 million and an increase in net pension liability of \$1.6 million, which was mainly the result of an increase in the District’s proportion and lower investment earnings by the pension plan.

Deferred Inflows of Resources

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

Deferred inflows of resources totaled \$0.7 million, \$1.2 million less than FY 2014-15. For more information on the pension plan, see Note I of the *Notes to the Basic Financial Statements*.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The table below displays a condensed version of the Statements of Revenues, Expenses and Changes in Net Position for the year ending June 30, 2016. The District's Net Position in 2016 increased from \$119.1 million to \$122.9 million, or \$3.9 million.

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

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Operating revenues	\$ 11.8	\$ 12.0	\$ (0.2)	-1.91%
Nonoperating revenues	3.6	3.4	0.2	4.44%
Total revenues	<u>15.4</u>	<u>15.5</u>	<u>(0.1)</u>	<u>-0.43%</u>
Operating expenses	13.7	13.3	0.4	2.78%
Depreciation	3.8	4.0	(0.1)	-3.21%
Nonoperating expenses	0.3	0.3	0.0	4.75%
Total expenses	<u>17.8</u>	<u>17.6</u>	<u>0.3</u>	<u>1.52%</u>
Net (Loss) income before capital contributions	<u>(2.4)</u>	<u>(2.1)</u>	<u>(0.3)</u>	<u>14.05%</u>
Expansion fees	1.4	0.5	1.0	67.28%
Capital renovation and replacement (R&R) fees	4.3	4.0	0.3	7.02%
Other capital contributions	0.6	1.6	(1.1)	-181.55%
Total capital contributions and transfers	<u>6.3</u>	<u>6.1</u>	<u>0.2</u>	<u>3.15%</u>
Changes in net position	3.9	4.0	(0.1)	-3.59%
Net position at beginning of year	<u>119.1</u>	<u>115.0</u>	<u>4.0</u>	<u>3.38%</u>
Net position at end of year	<u>\$ 122.9</u>	<u>\$ 119.1</u>	<u>\$ 3.9</u>	<u>3.16%</u>

Operating Revenues

Operating revenues account for approximately seventy-seven percent (77%) of the District's revenues. The majority of the revenues come from water sales, base rates and consumptive revenues.

Table A-3
Operating Revenues
(in millions)

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Water sales and sewer charges	\$ 11.3	\$ 11.5	\$ (0.1)	-1.11%
Water and sewer fees	0.5	0.6	(0.1)	-21.03%
Total operating revenues	<u>\$ 11.8</u>	<u>\$ 12.0</u>	<u>\$ (0.2)</u>	<u>-1.91%</u>

Due in part to state mandated water conservation requirements FY 2015-16 operating revenues were \$0.2 million less than the prior year.

Nonoperating Revenues

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

Nonoperating revenues increased \$0.2 million from \$3.4 million in FY 2014-15 to \$3.6 million in FY 2015-16 due to an increase in property taxes.

Table A-4
Nonoperating Revenues
(in millions)

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Property taxes and assessments	\$ 2.7	\$ 2.5	\$ 0.2	6.63%
Investment income	0.2	0.3	(0.0)	-19.06%
Power sales	0.6	0.5	0.0	7.93%
Other income	0.1	0.1	(0.1)	-111.19%
Grant revenues	0.1	-	0.1	100.00%
Gain (loss) on sale of capital assets	(0.0)	0.0	(0.0)	132.61%
Total operating expenses, excluding depreciation	<u>\$ 3.6</u>	<u>\$ 3.4</u>	<u>\$ 0.2</u>	<u>4.44%</u>

Operating Expenses, Excluding Depreciation

Approximately fifty-seven percent (57%) of the District's operating expenses are salaries and benefits expenses, followed by other operating expenses and utility services. Other significant operating expenses include professional services and repairs and maintenance.

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

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Salaries and benefits	\$ 7.8	\$ 7.4	\$ 0.4	4.66%
Repairs and maintenance	0.8	1.0	(0.2)	-21.28%
Materials and supplies	0.7	0.8	(0.1)	-14.66%
Utility services	1.0	0.9	0.1	11.69%
Professional services	0.9	0.9	(0.0)	-0.53%
Vehicle and equipment	0.3	0.4	(0.0)	-5.93%
Other operating expenses	1.2	1.0	0.3	20.70%
Travel and training	0.1	0.1	(0.0)	-17.04%
Director costs	0.1	0.1	0.0	0.48%
Postemployment benefits	0.7	0.8	(0.1)	-7.03%
Total operating expenses, excluding depreciation	<u>\$ 13.7</u>	<u>\$ 13.3</u>	<u>\$ 0.4</u>	<u>2.78%</u>

Total operating expenses, excluding depreciation, for FY 2015-16 were \$13.7 million. This represents a \$0.4 million increase over the prior year, due in part to an increase in salaries and benefits expenses.

Nonoperating Expenses

Includes debt service interest expense and bond issuance costs associated with the Series 2016 Water Enterprise Revenue Bonds.

Table A-6
Nonoperating Expenses
(in millions)

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Interest expense	\$ 0.3	\$ 0.3	\$ (0.0)	-3.66%
Bond issuance costs	0.0	-	0.0	100.00%
Total nonoperating expenses	<u>\$ 0.3</u>	<u>\$ 0.3</u>	<u>\$ 0.0</u>	<u>4.75%</u>

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

Net Operating Income (Loss), Excluding Depreciation and Amortization

An important measure of an organization's performance.

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

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Operating revenues	\$ 11.8	\$ 12.0	\$ (0.2)	-1.91%
Operating expenditures	(13.7)	(13.3)	(0.4)	2.78%
Net operating income/(loss), excluding depreciation	\$ (1.8)	\$ (1.2)	\$ (0.6)	32.98%

As a result of ongoing state mandated water conservation requirements and subsequent lower water sales, as well as an increase in salaries and benefits expenses, the FY 2015-16 net operating loss, excluding depreciation, was \$0.6 million greater than FY 2014-15.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Capital assets, not being depreciated				
Land	\$ 13.7	\$ 13.7	\$ -	0.00%
Construction in progress	3.0	1.9	1.1	36.66%
Total capital assets, not being depreciated	16.7	15.6	1.1	6.65%
Capital assets, being depreciated				
Buildings	18.6	18.6	-	0.00%
Utility system - infrastructure	153.2	151.0	2.2	1.42%
Machinery and equipment	17.5	17.2	0.3	1.76%
Total capital assets, being depreciated	189.3	186.8	2.5	1.31%
Less accumulated depreciation for:				
Buildings	(9.9)	(9.6)	(0.4)	3.60%
Utility system - infrastructure	(72.0)	(69.0)	(3.0)	4.18%
Machinery and equipment	(15.8)	(15.4)	(0.4)	2.81%
Total accumulated depreciation	(97.8)	(94.0)	(3.8)	3.90%
Total capital assets, being depreciated, net	91.5	92.8	(1.3)	-1.46%
Total capital assets, net	\$ 108.3	\$ 108.5	\$ (0.2)	-0.20%

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

Net capital assets totaled approximately \$108.3 million, virtually unchanged from the prior year. An increase of \$3.6 million in capital assets were offset by \$3.8 million in accumulated depreciation.

The major capital asset additions for the current year included:

- \$0.7 million for the Lake Tulloch Drought Emergency Project
- \$2.3 million for Copper Cove Lift Station #22 Replacement Project
- \$0.3 million for vehicle and equipment replacement

LONG-TERM DEBT AND LOANS

As of June 30, 2016, the District had \$9.9 million in long-term debt and loans outstanding, and a compensated absences balance of \$0.9 million. This represents a decrease of \$2.2 million, or seventeen percent (17%) from FY 2014-15.

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

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

	As of June 30		Dollar Change	Percent Change
	2016	2015 (as Restated)		
Water Fund:				
Water Revenue Loans	\$ 6.3	\$ 8.0	\$ (1.7)	-21.29%
U.S. Bureau of Reclamation Note	0.4	0.4	(0.0)	-11.28%
Pension Loan	0.5	0.8	(0.3)	-36.61%
Total Water Fund loans and notes	7.2	9.3	(2.1)	-22.25%
Compensated absences	0.5	0.5	0.0	5.31%
Total Water Fund liabilities	7.7	9.8	(2.0)	-20.83%
Sewer Fund:				
Sewer Revenue Loans	2.0	2.5	(0.4)	-17.08%
U.S. Bureau of Reclamation Note	0.1	0.1	(0.0)	-6.48%
Pension Loan	0.3	0.3	0.0	9.79%
Total Sewer Fund loans and notes	2.5	2.9	(0.4)	-13.93%
Compensated absences	0.3	0.3	0.0	7.21%
Total Sewer Fund liabilities	2.8	3.2	(0.4)	-11.88%
Public Financing Authority				
Water Revenue Bonds	0.2	-	0.2	100.00%
Total long-term liabilities	<u>\$ 10.7</u>	<u>\$ 12.9</u>	<u>\$ (2.2)</u>	<u>-17.14%</u>

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

ECONOMIC CONDITION AND OUTLOOK

Overall, Calaveras County had an average wage and salary employment increase of 3.5 percent (3.5%) over the last two years. The public sector remains Calaveras County's largest employer, accounting for approximately twenty-nine percent (29%) of all jobs. The largest job gains were recorded in education and healthcare, followed by the wholesale and retail trades, and then government. An indicator of an economic recovery is that despite population growth of less than one percent, the District has seen a resurgence in the construction of new residential units and the associated capacity fee revenues for both water and wastewater services.

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

The ongoing drought and the state's mandated water conservation program initiated by Governor Brown continues to affect the District's water operations and sales. Although the District has ample water supplies to meet customer demands, the District complied with the Governor's emergency decree. However, like many water districts throughout the state, the mandated water conservation requirements again resulted in decreased water consumption and consequently reduced water consumption revenues.

As most of the costs required to operate and maintain the water and wastewater systems on a 24/7 basis are fixed, the reduction in water revenue has stretched the District resources. The high cost of 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 that reduce expenses but do not compromise the District's ability to meet 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

BASIC FINANCIAL STATEMENTS

CALAVERAS COUNTY WATER DISTRICT

BALANCE SHEETS - PROPRIETARY FUNDS

June 30, 2016 and 2015
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CURRENT ASSETS					
Cash and cash equivalents	\$ 7,909,500			\$ 7,909,500	\$ 4,863,953
Investments	1,084,683			1,084,683	5,128,317
Accounts receivable	1,830,426	\$ 881,667		2,712,093	2,746,884
Taxes receivable	105,799	37,173		142,972	164,251
Grants receivable	541,178	402		541,580	24,535
Bond proceeds receivable			\$ 162,215	162,215	
Interest receivable	30,568	4,749		35,317	55,424
Prepaid expenses and other assets	110,282	38,747		149,029	152,097
Due from other funds	257,798			257,798	
TOTAL CURRENT ASSETS	11,870,234	962,738	162,215	12,995,187	13,135,461
NONCURRENT ASSETS					
Restricted assets:					
Cash and cash equivalents	13,492,540	3,845,003	2,705	17,340,248	8,217,996
Investments	1,242,834	744,718		1,987,552	9,127,304
Interest receivable	23,890	7,107		30,997	43,483
Due from other funds	192,014			192,014	
Interfund loans		2,339,106		2,339,106	2,342,159
Total Restricted Assets	14,951,278	6,935,934	2,705	21,889,917	19,730,942
Other noncurrent assets	27,550	9,679		37,229	19,013
Notes receivable	7,948	2,793		10,741	52,650
Other postemployment benefits asset	519,187	182,417		701,604	301,249
Capital assets:					
Nondepreciable	6,855,783	9,690,770	194,719	16,741,272	15,627,239
Depreciable, net	58,718,779	32,793,941		91,512,720	92,847,179
Total Capital Assets, Net	65,574,562	42,484,711	194,719	108,253,992	108,474,418
TOTAL NONCURRENT ASSETS	81,080,525	49,615,534	197,424	130,893,483	128,578,272
TOTAL ASSETS	92,950,759	50,578,272	359,639	143,888,670	141,713,733
DEFERRED OUTFLOWS OF RESOURCES					
Pensions	932,085	327,489		1,259,574	745,812
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 93,882,844	\$ 50,905,761	\$ 359,639	\$ 145,148,244	\$ 142,459,545

CALAVERAS COUNTY WATER DISTRICT

BALANCE SHEETS - PROPRIETARY FUNDS (Continued)

June 30, 2016 and 2015
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 811,204	\$ 135,334		\$ 946,538	\$ 771,441
Deposits payable	57,719	18,842		76,561	63,849
Accrued interest payable	49,117	17,269		66,386	79,701
Due to other funds		257,798		257,798	
Current portion of long-term liabilities	2,407,403	832,478		3,239,881	3,146,313
TOTAL CURRENT LIABILITIES	3,325,443	1,261,721		4,587,164	4,061,304
NONCURRENT LIABILITIES					
Due to other funds			\$ 192,014	192,014	
Interfund loans	2,339,106			2,339,106	2,342,159
Noncurrent portion of long-term liabilities	5,322,830	1,971,802	192,215	7,486,847	9,799,495
Net pension liability	5,113,118	1,796,501		6,909,619	5,327,739
TOTAL NONCURRENT LIABILITIES	12,775,054	3,768,303	384,229	16,927,586	17,469,393
TOTAL LIABILITIES	16,100,497	5,030,024	384,229	21,514,750	21,530,697
DEFERRED INFLOWS OF RESOURCES					
Pensions	511,447	179,698		691,145	1,872,095
NET POSITION					
Net investment in capital assets	58,914,041	40,322,820	2,504	99,239,365	96,342,896
Restricted for expansion and construction	10,146,185	5,556,067		15,702,252	13,662,772
Restricted for debt service	683,447	29,517		712,964	712,964
Unrestricted	7,527,227	(212,365)	(27,094)	7,287,768	8,338,121
TOTAL NET POSITION	77,270,900	45,696,039	(24,590)	122,942,349	119,056,753
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 93,882,844	\$ 50,905,761	\$ 359,639	\$ 145,148,244	\$ 142,459,545

The accompanying notes are an integral part of these financial statements

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

For the Years Ended June 30, 2016 and 2015
 (With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2016	2015
OPERATING REVENUE					
Water sales and sewer charges	\$ 7,158,412	\$ 4,190,061		\$ 11,348,473	\$ 11,474,931
Water and sewer fees	374,607	97,987		472,594	571,957
TOTAL OPERATING REVENUE	<u>7,533,019</u>	<u>4,288,048</u>		<u>11,821,067</u>	<u>12,046,888</u>
OPERATING EXPENSES					
Salaries and benefits	4,860,162	2,903,565		7,763,727	7,401,717
Repairs and maintenance	486,335	309,214		795,549	964,864
Materials and supplies	365,579	364,467		730,046	837,088
Utility services	603,551	432,602		1,036,153	915,036
Professional services	568,407	276,299	\$ 17,500	862,206	866,789
Vehicle and equipment	187,213	154,710		341,923	362,207
Other operating expenses	762,866	477,142		1,240,008	983,300
Travel and training	36,169	18,999		55,168	64,571
Director costs	81,847	28,757		110,604	110,069
Postemployment benefits	532,956	187,255		720,211	770,817
Depreciation	2,612,334	1,227,377		3,839,711	3,962,934
TOTAL OPERATING EXPENSES	<u>11,097,419</u>	<u>6,380,387</u>	<u>17,500</u>	<u>17,495,306</u>	<u>17,239,392</u>
NET LOSS FROM OPERATIONS	<u>(3,564,400)</u>	<u>(2,092,339)</u>	<u>(17,500)</u>	<u>(5,674,239)</u>	<u>(5,192,504)</u>
NONOPERATING REVENUES (EXPENSES)					
Property taxes and assessments	1,989,031	698,848		2,687,879	2,509,622
Investment income	133,621	88,668		222,289	264,663
Power sales	423,697	148,866		572,563	527,139
Other income	47,009	18,788		65,797	138,958
Grant revenues	61,053	21,452		82,505	
Gain/(loss) on sale of capital assets		(22,996)		(22,996)	7,500
Interest expense	(223,353)	(85,824)		(309,177)	(320,499)
Bond issuance costs			(27,295)	(27,295)	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>2,431,058</u>	<u>867,802</u>	<u>(27,295)</u>	<u>3,271,565</u>	<u>3,127,383</u>
NET (LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(1,133,342)</u>	<u>(1,224,537)</u>	<u>(44,795)</u>	<u>(2,402,674)</u>	<u>(2,065,121)</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Expansion fees	1,285,255	135,648		1,420,903	464,930
Capital renovation and replacement (R & R) fees	3,117,700	1,166,444		4,284,144	3,983,183
Other capital contributions	582,821	402		583,223	1,642,351
Transfers in	151,945	39,474	20,205	211,624	34,642
Transfers (out)	(55,129)	(156,495)		(211,624)	(34,642)
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>5,082,592</u>	<u>1,185,473</u>	<u>20,205</u>	<u>6,288,270</u>	<u>6,090,464</u>
CHANGES IN NET POSITION	<u>3,949,250</u>	<u>(39,064)</u>	<u>(24,590)</u>	<u>3,885,596</u>	<u>4,025,343</u>
Net position at beginning of year	<u>73,321,650</u>	<u>45,735,103</u>		<u>119,056,753</u>	<u>115,031,410</u>
NET POSITION AT END OF YEAR	<u>\$ 77,270,900</u>	<u>\$ 45,696,039</u>	<u>\$ (24,590)</u>	<u>\$ 122,942,349</u>	<u>\$ 119,056,753</u>

The accompanying notes are an integral part of these financial statements

CALAVERAS COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS

For the Years Ended June 30, 2016 and 2015
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2016	2015
					(As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	\$ 7,556,303	\$ 4,294,051		\$ 11,850,354	\$ 12,007,342
Cash paid to suppliers for goods and services	(2,579,517)	(2,283,301)		(4,862,818)	(5,341,710)
Cash paid to employees for services	(5,969,354)	(3,091,812)	\$ (17,500)	(9,078,666)	(8,537,530)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(992,568)</u>	<u>(1,081,062)</u>	<u>(17,500)</u>	<u>(2,091,130)</u>	<u>(1,871,898)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Property taxes and assessments	2,002,509	706,649		2,709,158	2,427,176
Power sales	423,697	148,866		572,563	527,139
Other income	36,008	71,698		107,706	142,403
Operating grants from outside agencies	61,053	21,050		82,103	321,836
Interfund transfers	(352,996)	140,777	212,219		
Receipts from agency funds					1,363,643
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,170,271</u>	<u>1,089,040</u>	<u>212,219</u>	<u>3,471,530</u>	<u>4,782,197</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions received	4,469,133	1,302,494		5,771,627	4,521,138
Acquisition of capital assets	(2,351,803)	(1,095,759)	(194,719)	(3,642,281)	(3,194,562)
Additions to long-term liabilities			30,000	30,000	
Bond issuance costs			(27,295)	(27,295)	
Principal paid on long-term liabilities	(2,060,217)	(400,211)		(2,460,428)	(2,424,910)
Interest payments on long-term liabilities	(233,867)	(88,625)		(322,492)	(311,506)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(176,754)</u>	<u>(282,101)</u>	<u>(192,014)</u>	<u>(650,869)</u>	<u>(1,409,840)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Maturities of investments	8,376,376	2,847,047		11,223,423	
Interest received	157,006	57,839		214,845	265,245
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,533,382</u>	<u>2,904,886</u>		<u>11,438,268</u>	<u>265,245</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	<u>9,534,331</u>	<u>2,630,763</u>	<u>2,705</u>	<u>12,167,799</u>	<u>1,765,704</u>
Cash and cash equivalents at beginning of year - as restated	<u>11,867,709</u>	<u>1,214,240</u>		<u>13,081,949</u>	<u>11,316,245</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$21,402,040</u>	<u>\$ 3,845,003</u>	<u>\$ 2,705</u>	<u>\$ 25,249,748</u>	<u>\$ 13,081,949</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINING BALANCE SHEET					
Cash and cash equivalents	\$ 7,909,500			\$ 7,909,500	\$ 4,863,953
Restricted cash and cash equivalents	13,492,540	\$ 3,845,003	\$ 2,705	17,340,248	8,217,996
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$21,402,040</u>	<u>\$ 3,845,003</u>	<u>\$ 2,705</u>	<u>\$ 25,249,748</u>	<u>\$ 13,081,949</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS PROPRIETARY FUNDS (Continued)

For the Years Ended June 30, 2016 and 2015
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2016	2015 (As Restated)
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:					
Net loss from operations	\$ (3,564,400)	\$ (2,092,339)	\$ (17,500)	\$ (5,674,239)	\$ (5,192,504)
Adjustments to reconcile net loss from operations to net cash used for operating activities:					
Depreciation	2,612,334	1,227,377		3,839,711	3,962,934
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
Accounts receivable	27,765	7,026		34,791	(88,590)
Prepaid expenses and other assets	3,791	(723)		3,068	4,518
Deferred charges	(13,290)	(4,926)		(18,216)	3,286
Other postemployment benefits asset	(293,250)	(107,105)		(400,355)	(301,249)
Deferred outflows/inflows of resources - pensions	(148,036)	35,204		(112,832)	(120,745)
Accounts payable and accrued expenses	346,883	(171,786)		175,097	(180,054)
Deposits payable	8,809	3,903		12,712	(16,492)
Compensated absences	26,826	22,307		49,133	56,998
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (992,568)</u>	<u>\$ (1,081,062)</u>	<u>\$ (17,500)</u>	<u>\$ (2,091,130)</u>	<u>\$ (1,871,898)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:					
Change in unrealized gain/loss on investments	\$ (115,028)	\$ (40,037)		\$ (155,065)	
Change in bond proceeds receivable			\$ (162,215)	\$ (162,215)	

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

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
ASSESSMENT DISTRICT AGENCY FUND

June 30, 2016 and 2015
(With Prior Year Data for Comparative Purposes Only)

	<u>Agency Funds</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,093,033	\$ 1,022,227
Interest receivable	781	418
Due from County of Calaveras	21,262	18,777
Restricted assets:		
Cash and cash equivalents with fiscal agents	519,719	522,084
TOTAL ASSETS	<u>\$ 1,634,795</u>	<u>\$ 1,563,506</u>
LIABILITIES		
Accounts payable	\$ 1,141	\$ 7,248
Notes payable	10,741	
Due to bond holders	1,622,913	1,556,258
TOTAL LIABILITIES	<u>\$ 1,634,795</u>	<u>\$ 1,563,506</u>

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

CALAVERAS COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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

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

The District reports the following major proprietary funds:

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

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

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

The District also reports the following fiduciary fund:

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

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

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the District, including providing water service, water supply development and planning, wastewater treatment and disposal and recycling. Operating revenues consist primarily of water sales, sewer charges and related fees. Operating expenses consist of the cost of sales and services, administration and depreciation on capital assets. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less, including restricted assets, to be cash equivalents.

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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

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

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

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

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

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

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The District allocates general and administrative expenses 74% to the Water Fund and 26% to the Sewer Fund according to the relative number of water and sewer accounts.

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

Reclassifications: Certain reclassifications were made to the June 30, 2015 comparative totals to conform to the current presentation. In the proprietary fund statements, reclassifications included separately reporting investments and cash and cash equivalents, reclassifying Board designations that were inadvertently reported as restricted cash and cash equivalents to current (unrestricted) cash and cash equivalents and investments, separately reporting nondepreciable and depreciable capital assets, adding the current portion of compensated absences to the current portion of long-term liabilities, adding the noncurrent portion of compensated absences to the noncurrent portion of long-term liabilities, eliminating Board designations from restricted net position, reclassifying certain operating expenses and reclassifying capital contribution revenues to capital contributions and transfers. In addition, restricted net position was reduced by liabilities related to the expansion fee and capital R & R revenue funded projects that were not reflected in the June 30, 2015 statements. In the fiduciary fund statements, fiscal agent cash and cash equivalents and accounts payable were separately reported. These reclassifications had no effect on the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position or change in net position previously reported.

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

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria allowing investment pools meeting certain maturity, quality, diversification and other criteria to measure its investments at amortized cost for financial reporting purposes rather than at fair value and allowing the pool’s users to measure their investment in the pool at amortized cost. This Statement is effective for periods beginning after June 15, 2015 with some provisions effective for periods beginning after December 15, 2015.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information, clarifies the use of the term *deviation* for the selection of assumptions, and clarifies the classification of employer-paid member contributions and the period in which they should be recognized. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

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

NOTE B – CASH AND INVESTMENTS

Cash and investments were reported in the financial statements as follows at June 30, 2016:

	Proprietary Funds	Fiduciary Funds	Total
Cash and cash equivalents	\$ 7,909,500	\$ 1,093,033	\$ 9,002,533
Investments	1,084,683		1,084,683
Restricted cash and cash equivalents	17,340,248		17,340,248
Restricted cash and cash equivalents with fiscal agents		519,719	519,719
Restricted investments	1,987,552		1,987,552
Total cash and investments	<u>\$ 28,321,983</u>	<u>\$ 1,612,752</u>	<u>\$ 29,934,735</u>

Cash and investments were classified according to GASB Statement No. 40 as follows at June 30, 2016:

	Proprietary Funds	Fiduciary Funds	Total
Cash on hand	\$ 600		\$ 600
Bank deposits	4,190,271	\$ 1,093,033	5,283,304
Total cash and deposits	<u>4,190,871</u>	<u>1,093,033</u>	<u>5,283,904</u>
California local district obligations	2,008,020		2,008,020
Medium term corporate notes	96,187		96,187
Local Agency Investment Fund (LAIF)	21,095,539		21,095,539
Non-negotiable certificates of deposit	931,366		931,366
Investments with fiscal agents:			
Money market mutual funds		205,527	205,527
Local Agency Investment Fund (LAIF)		314,192	314,192
Total investments	<u>24,131,112</u>	<u>519,719</u>	<u>24,650,831</u>
Total cash and investments	<u>\$ 28,321,983</u>	<u>\$ 1,612,752</u>	<u>\$ 29,934,735</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE B – CASH AND INVESTMENTS (Continued)

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Credit Quality
Local district bonds	5 years	50%	AA
U.S. Treasury obligations	5 years	100%	N/A
State of California obligations	5 years	100%	A
Other state obligations	5 years	20%	AA
California local district obligations	5 years	50%	AA
U.S. agency securities	5 years	100%	AAA
Bankers acceptances	180 days	40%	A
Commercial paper	270 days	25%	AA
Negotiable certificates of deposit	5 years	30%	N/A
Repurchase agreements	1 year	20%	None
Reverse repurchase agreements	92 days	20% of base	A
Medium term corporate notes	5 years	30%	A 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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE B – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements: The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt agreements. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

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

(1) Highest raking by 2 of 3 of the nationally recognized rating agencies.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided in the following table that shows the distribution of the District’s investments by maturity at June 30, 2016:

Investment Type	Total	12 Months or Less	13 to 24 Months
California local district obligations	\$ 2,008,020	\$ 2,008,020	
Medium term corporate notes	96,187	96,187	
LAIF	21,095,539	21,095,539	
Non-negotiable certificates of deposit	931,366	301,523	\$ 629,843
Investments with fiscal agent:			
Money market mutual funds	205,527	205,527	
LAIF	314,192	314,192	
Total Investments	\$ 24,650,831	\$ 24,020,988	\$ 629,843

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE B – CASH AND INVESTMENTS (Continued)

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

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type at June 30, 2016.

Investment Type	Total	Minimum Rating	Ratings as of Year End	
			AA-	Not Rated
California local district obligations	\$ 2,008,020	AA	\$ 2,008,020	
Medium term corporate notes ⁽¹⁾	96,187	A		\$ 96,187
LAIF	21,095,539	N/A		21,095,539
Non-negotiable certificates of deposit	931,366	None		931,366
Investments with fiscal agent:				
Money market mutual funds	205,527	N/A		205,527
LAIF	314,192	N/A		314,192
Total Investments	\$ 24,650,831		\$ 2,008,020	\$ 22,642,811

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

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer by the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, mutual funds and external investment pools. Concentrations of investments exceeding 5% of total investments were as follows at June 30, 2016:

Issuer	Investment Type	Amount
San Bernardino County Pension Obligation Bonds	California Local District Obligations	\$ 2,008,020

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE B – CASH AND INVESTMENTS (Continued)

by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2016, the carrying amount of the District's deposits, including Agency Fund deposits and certificates of deposit, was \$6,214,670 and the balance in financial institutions was \$5,667,104. Of the balance in financial institutions, \$268,054 was covered by federal depository insurance and the remaining amount of \$5,399,051 was secured by a pledge of securities by the financial institution, but not in the name of the District. The California local district obligations, medium term corporate notes and money market mutual funds are held by the same broker-dealers (counterparty) used by the District to buy the securities.

On September 15, 2008, Lehman Brothers Holdings Inc. declared bankruptcy, which has had a direct and negative impact on the District's investment holdings. After consultation with the District's investment broker, the District decided to permanently write-down the carrying amount of the securities to the estimated recoverable market value and hold the securities through the bankruptcy proceedings. There is a market for selling the security and the District is able to determine a fair value. As of June 30, 2016, the District carried the Lehman securities at the estimated recoverable fair value provided by the investment broker of \$96,187. The amount ultimately recovered may differ from this estimate. The District recovered \$58,595 on the securities during the year-ended June 30, 2016.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on June 30, 2016 by all public agencies in LAIF is \$75,368,904,611, which is managed by the State Treasurer. Of that amount, .26% is invested in non-derivative financial products and 1.55% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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

The District has the following recurring fair value measurements as of June 30, 2016:

- California local district obligations of \$2,008,020 are valued using a matrix pricing model based on the securities' relationship to benchmark quoted prices or yields of similar securities (Level 2 inputs).
- Medium term corporate notes of \$96,187 are valued based on the estimated recoverable value based on information learned during the Lehman Brothers Holdings Inc. bankruptcy, which includes unobservable inputs (Level 3 inputs).
- Non-negotiable certificates of deposit of \$931,366 were valued by removing the prepayment penalty for early withdrawal from the remaining interest to maturity and adding the result to the principal amount (Level 2 inputs).

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE C – CAPITAL ASSETS

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

	Balance at July 1, 2015	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2016
Capital assets, not being depreciated:					
Land	\$ 13,702,378				\$ 13,702,378
Construction in progress	1,924,861	\$ 3,380,381		\$ (2,266,348)	3,038,894
Total capital assets, not being depreciated	<u>15,627,239</u>	<u>3,380,381</u>		<u>(2,266,348)</u>	<u>16,741,272</u>
Capital assets, being depreciated:					
Buildings	18,603,518				18,603,518
Utility system - infrastructure	150,983,367		\$ (50,001)	2,218,871	153,152,237
Machinery and equipment	17,221,289	261,900		47,477	17,530,666
Total capital assets, being depreciated	<u>186,808,174</u>	<u>261,900</u>	<u>(50,001)</u>	<u>2,266,348</u>	<u>189,286,421</u>
Less accumulated depreciation for:					
Buildings	(9,558,667)	(357,149)			(9,915,816)
Utility system - infrastructure	(69,030,278)	(3,038,826)	27,005		(72,042,099)
Machinery and equipment	(15,372,050)	(443,736)			(15,815,786)
Total accumulated depreciation	<u>(93,960,995)</u>	<u>(3,839,711)</u>	<u>27,005</u>		<u>(97,773,701)</u>
Total capital assets, being depreciated, net	<u>92,847,179</u>	<u>(3,577,811)</u>	<u>(22,996)</u>	<u>2,266,348</u>	<u>91,512,720</u>
Total capital assets, net	<u>\$ 108,474,418</u>	<u>\$ (197,430)</u>	<u>\$ (22,996)</u>	<u>\$ -</u>	<u>\$ 108,253,992</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE D – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the year ended June 30, 2016 was as follows:

	Balance at July 1, 2015	Additions	Retirements	Balance at June 30, 2016	Current Portion
Water Fund:					
Series 2013 Refunding Water Revenue Loan	\$ 3,860,845		\$ (1,695,475)	\$ 2,165,370	\$ 1,722,644
Umpqua Bank 2014 Water Revenue Loan	4,061,933			4,061,933	
Wallace WestAmerica Loan	77,908		(7,859)	70,049	7,206
U.S. Bureau of Reclamation Note - Hogan	409,325		(46,156)	363,169	40,463
Umpqua Bank Pension Loan	848,791		(310,727)	538,064	185,189
Total Water Fund loans and notes	9,258,802		(2,060,217)	7,198,585	1,955,502
Compensated absences	504,822	\$ 26,826		531,648	451,901
Total Water Fund liabilities	9,763,624	26,826	(2,060,217)	7,730,233	2,407,403
Sewer Fund:					
Series 2013 Refunding Sewer Revenue Loan	166,742		(73,224)	93,518	74,398
Umpqua Bank 2014 Sewer Revenue Loan	2,058,524		(278,796)	1,779,728	284,936
Vac-Con Truck Loan	202,113		(65,680)	136,433	67,483
Wallace WestAmerica Loan	25,969		(1,357)	24,612	2,532
U.S. Bureau of Reclamation Note - Hogan	136,442		(8,842)	127,600	14,217
Umpqua Bank Pension Loan	282,930		27,688	310,618	106,907
Total Sewer Fund loans and notes	2,872,720		(400,211)	2,472,509	550,473
Compensated absences	309,464	22,307		331,771	282,005
Total Sewer Fund liabilities	3,182,184	22,307	(400,211)	2,804,280	832,478
Public Financing Authority Fund:					
Series 2016 Water Enterprise Revenue Bonds		192,215		192,215	
Total long-term liabilities	\$ 12,945,808	\$ 241,348	\$ (2,460,428)	\$ 10,726,728	\$ 3,239,881

Description of Water Fund Loans and Notes:

Series 2013 Refunding Water Revenue Loan: On February 1, 2013, the District obtained a loan from Compass Mortgage Corporation in the amount of \$7,188,541 to refund the 2004 Revenue Bonds. The loan is payable from a pledge on the District’s net water revenues as defined in the agreement and the District must collect rates, fees and charges during the term of the loan that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Annual principal payments are due each September 1 ranging from \$442,726 to \$1,722,644 and semi-annual interest installments ranging from \$3,498 to \$30,501 are due each March 1 and September 1 at 1.58% through September 1, 2017.

Umpqua Bank 2014 Water Revenue Loan: In April 2014, the District obtained a loan from Umpqua Bank for \$4,061,933 to fund various water improvement projects. The loan is payable from a pledge on the District’s net water revenue as defined in the agreement and the District must collect rates, fees and charges during the term of the loan that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Semi-annual interest payments of \$43,296 and \$44,013 are due through March 1, 2017 and then semi-annual principal and interest payments ranging from \$369,183 to \$593,470 are due beginning in September 1, 2017 through March 1, 2021. The interest rate on the loan is 2.12%.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE D – LONG-TERM LIABILITIES (Continued)

Description of Sewer Fund Loans and Notes:

Series 2013 Refunding Sewer Revenue Loan: On February 1, 2013, the District obtained a loan from Compass Mortgage Corporation in the amount of \$310,459 to refund the 2004 Revenue Bonds. The loan is payable from a pledge on the District's net wastewater revenue as defined in the agreement and the District must collect rates, fees and charges that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Annual principal payments are due each September 1 ranging from \$19,120 to \$74,398 and semi-annual interest installments ranging from \$151 to \$1,317 are due each March 1 and September 1 at 1.58% through September 1, 2017.

Umpqua Bank 2014 Sewer Revenue Loan: In April 2014, the District obtained a loan from Umpqua Bank for \$2,337,528 to fund various wastewater improvement projects. The loan is payable from a pledge on the District's net wastewater revenue as defined in the agreement and the District must collect rates, fees and charges during the term of the loan that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Semi-annual principal and interest payments ranging from \$161,780 to \$199,605 are due each September 1 and March 1 at 2.12% through September 1, 2021.

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

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

Wallace WestAmerica Loan: The District assumed a loan from Wallace Community Services District to WestAmerica Bank in the amount of \$120,934 to take ownership of a wastewater treatment plant equalization tank owned by the Wallace Community Services District. The loan is payable from a pledge on the District's net water and wastewater revenue as defined in the agreement and the District must collect rates, fees and charges that are at least equal to 115% of the debt service payments on the loan and all other parity debt. The loan is paid annually in installments of \$14,944 due each August 29. The loan includes interest at 5.5% and matures on August 29, 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 required the Calaveras County Water District to make annual payments based on a variable computation to Stockton-East Water District through 2010 with no interest. The unpaid balance at September 2010 began to bear interest at 4.5%. Annual principal payments range from \$54,279 to \$54,680 and annual interest payments range from \$2,443 to \$19,667 through June 30, 2024. The remaining balance on the contract at June 30, 2016, is \$490,769.

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE D – LONG-TERM LIABILITIES (Continued)

Umpqua Bank Pension Loan: On March 28, 2012, the District obtained a loan from Umpqua Bank for \$1,974,792 in order to pay off its side-fund with CalPERS in the same amount. The side fund represented the District’s unfunded pension liability when the District joined a CalPERS cost-sharing pension plan. The loan is paid in monthly payments of \$26,051 including interest at 2.9%, maturing on April 1, 2019. The loan is secured by a pledge of three certificates of deposit in the amount of \$931,666 at June 30, 2016, maturing by May 1, 2017, 2018, and 2019.

Description of Public Financing Authority Fund Debt:

U.S. Department of Agriculture Bonds: On June 16, 2016, the Calaveras County Water District Public Financing Authority issued Series 2016 Water Enterprise Revenue Bonds with a borrowing limit of \$2,622,000 to assist in the funding of the Ebbetts Pass Reach 3A Pipeline Replacement Project. The Bonds will be paid solely from installment sale payments made from the District’s net water system revenues to purchase the project assets. The District is required to request drawdowns under the agreement that are subject to approval as to the eligibility of the expenditures by the U.S. Department of Agriculture. The bonds will be paid annually each September 1 in amounts ranging from \$42,700 to \$99,500 including interest at 2.25% from September 1, 2017 to September 1, 2055 assuming the full amount of the bonds are outstanding. Annual principal and interest payments are currently not determined because only \$192,215 of bonds were outstanding as of June 30, 2016.

The annual requirements to amortize the outstanding loans and notes payable at June 30, 2016 were as follows:

Years ending June 30	Water Fund			Sewer Fund		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 1,955,502	\$ 141,505	\$ 2,097,007	\$ 550,473	\$ 51,590	\$ 602,063
2018	1,331,555	112,263	1,443,818	562,211	39,585	601,796
2019	1,324,802	38,787	1,363,589	485,523	28,352	513,875
2020	1,186,347	25,856	1,212,203	399,730	18,577	418,307
2021	1,211,509	15,235	1,226,744	408,212	9,455	417,667
2022-2024	188,870	12,807	201,677	66,360	4,500	70,860
	<u>\$ 7,198,585</u>	<u>\$ 346,453</u>	<u>\$ 7,545,038</u>	<u>\$ 2,472,509</u>	<u>\$ 152,059</u>	<u>\$ 2,624,568</u>

Pledged Revenues: The District has pledged future Water Fund and Sewer (wastewater) Fund revenues, net of specified operating expenses, to repay each of its Water Fund, Sewer Fund and Public Financing Authority loans and bonds as described above. Proceeds of the loans and bonds were used to fund certain water and sewer improvements, to purchase capital assets or refund certain prior debt issuances as described above. The loans and bonds are payable through June 30, 2023. Annual principal and interest on the loans and bonds are expected to be 75% or less (60% or less for the Vac-Con truck loan) of net revenues as required by the loan and bond covenants. Total principal and interest paid on all debt payable from net revenues in the Water and Sewer Funds was \$2,294,084 and \$488,836, respectively, and total water and sewer system net revenues were \$6,141,063 and \$1,275,279 for the year ended June 30, 2016. At June 30, 2016, the District’s total water and sewer system net revenues were 2.68% and 2.61% of debt service payments, respectively, as described in the debt service coverage ratio calculation in the Other Supplementary Information section of the financial statements.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE E – INTERNAL LOAN

On January 11, 2012, the Board of Directors approved a loan of \$3,000,000 from certain water and sewer expansion funds to pay for the construction of the District’s operations headquarters. This resulted in an internal loan of \$1,970,000 from the Sewer Fund to the Water Fund at June 30, 2016. The internal loan will be repaid over ten years at an interest rate of 2.5% or the weighted average of the District's current return on investments each year, whichever is higher. The internal loan will be repaid on an "interest only" basis for the first five years and then principal payments of \$645,741 will be made each year thereafter in addition to yearly interest payments.

On June 13, 2012, the Board of Directors approved a loan from the District’s Reserve fund to cover debt service payments for the Jenny Lind Water Expansion Fund Loan. The outstanding loan balance as of June 30, 2016 was \$1,419,636. This resulted in an internal loan of \$369,106 from the Sewer Fund to the Water Fund at June 30, 2016. The Jenny Lind Water Expansion Fund debt service obligation continues through fiscal year 2017/18, at which time additional internal loan funds may be necessary. The internal loan is non-interest bearing and will be repaid from new connection fees from the Jenny Lind service area.

NOTE F – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2016 were as follows:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
Water Fund	Sewer Fund	\$ 257,798
	Public Financing Authority	<u>192,014</u>
Total Due to/from		<u>\$ 449,812</u>

Due from/to other funds typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, or (4) revenue earned by a fund is not received until just after the end of the fiscal year. The amount the Sewer Fund owed to the Water Fund represents a cash deficit subsidized by the Water Fund and the amount the Public Financing Authority Fund owed the Water Fund was construction in process paid by the Water Fund on the Public Financing Authority Fund’s behalf until bond proceeds are received. The due from/to balances are anticipated to be paid back completely within the next fiscal year.

Interfund transfers for the year ended June 30, 2016 were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount</u>
Water Fund	Sewer Fund	\$ 151,945
Sewer Fund	Water Fund	39,474
Public Financing Authority Fund	Water Fund	15,655
Public Financing Authority Fund	Sewer Fund	<u>4,550</u>
Total Interfund Transfers		<u>\$ 211,624</u>

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE G – SPECIAL ASSESSMENT DISTRICT DEBT

The District acts as agent for the bondholders of five of the nine special assessment districts in the District’s service area. Each of these special assessment districts has issued bonds to finance improvements within the related district. The bonds are secured solely by liens on real property in the related assessment district. Calaveras County collects special assessments from the property owners in these special assessment districts. The special assessments collected are forwarded to the District, which directs payment to the bondholders through the designated paying agent. The District is not obligated in any manner in the event of default 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, 2016, were as follows:

District	Amount
Westpoint Acres #3A	\$ 35,000
Arnold Sewer #9S4 A/B	158,000
Saddle Creek Refinance 2001	2,470,000
DaLee/Cassidy	815,000
Fly-In Acres	1,935,000
Total	<u>\$ 5,413,000</u>

Additionally, the La Contenta Assessment District (AD 604) remains in default/foreclosure. The District will continue to act as the agent for La Contenta as foreclosure counsel works with the remaining delinquent property owners. In 2017 the District will make a disbursement to the bondholders based on available funds (\$93,448 at June 30, 2016), less an amount required for foreclosure counsel. At this time it is not known when the La Contenta Special Assessment District will be dissolved.

NOTE H – NET POSITION

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

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

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

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

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

Designations of unrestricted net position consisted of the following designations limited to the amount of unrestricted net position available to designate in each fund and the amounts as approved by the Board of Directors at June 30, 2016:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE H – NET POSITION (Continued)

	Limited to Unrestricted Net Position			As Approved		
	Water Fund	Sewer Fund	Public Financing Authority Fund	Water Fund	Sewer Fund	Public Financing Authority Fund
Designated:						
90 Day Emergency Operating Reserve	\$ 2,284,846			\$ 2,960,000	\$ 1,040,000	
Water Rights Reserve	3,000,000			3,000,000		
CIP Cash Flow Reserve	1,258,000			1,258,000	442,000	
Special Projects Reserve	984,381			984,381	345,863	
Total designated	<u>7,527,227</u>			<u>8,202,381</u>	<u>1,827,863</u>	
Undesignated		\$ (212,365)	\$ (27,094)	\$ 8,202,381	\$ 1,827,863	\$ -
Total unrestricted net position	<u>\$ 7,527,227</u>	<u>\$ (212,365)</u>	<u>\$ (27,094)</u>			

NOTE I – PENSION PLAN

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

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

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

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the Optional Settlement 2W Death Benefit. The cost of living adjustments for each rate plan are applied as specified by the Public Employees’ Retirement Law. Plan provisions and benefits in effect for the year ended June 30, 2016 are summarized as follows:

Hire date	Miscellaneous Plan First Tier	Miscellaneous Plan Second Tier	PEPRA Miscellaneous Plan
	(Prior to August 1, 2012)	(August 1, 2012 to December 31, 2012)	(On or after January 1, 2013)
Benefit formula (at full retirement)	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.00-2.70%	1.092%-2.418%	1.0% to 2.5%
Required employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	10.958%	6.709%	6.237%

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE I – PENSION PLAN (CONTINUED)

Contributions: Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2016 the employer contributions for the Plan (all rate plans combined) were as follows:

	<u>Miscellaneous Plan</u>
Contributions - employer	<u>\$ 535,436</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2016 the District reported a net pension liability for its proportionate share of the net pension liability of the Plan (all rate plans combined) as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Total Net Pension Liability - Miscellaneous Plan	<u>\$ 6,909,619</u>

The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan as of June 30, 2016 is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures as required by GASB Statement No. 68. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability for the Plan as of June 30, 2016 was as follows:

	<u>Miscellaneous Plan</u>
Proportion - June 30, 2015	0.21557%
Proportion - June 30, 2016	0.25186%
Change - Increase (Decrease)	0.03629%

For the year ended June 30, 2016 the District recognized pension expense of \$422,604. At June 30, the District reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 535,436	
Differences between actual and expected experience	48,659	
Changes in assumptions		\$ (460,361)
Differences between the employer’s contributions and the employer’s proportionate share of contributions	354	
Change in employer’s proportion	675,125	
Net differences between projected and actual earnings on plan investments		<u>(230,784)</u>
Total	<u>\$ 1,259,574</u>	<u>\$ (691,145)</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE I – PENSION PLANS (Continued)

The \$535,436 reported as deferred outflows of resources at June 30, 2016 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, 2017. Other amounts reported as net deferred outflows (inflows) of resources related to pensions will be recognized as pension expense as follows as of June 30, 2016:

Year Ended June 30	
2016	\$ (91,477)
2017	(85,641)
2018	(84,887)
2019	<u>294,998</u>
Total	<u>\$ 32,993</u>

Actuarial Assumptions: The total pension liabilities in the June 30, 2015 actuarial valuations for each of the rate plans were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service (1)
Investment Rate of Return	7.65%
Mortality	Derived using CalPERS Membership Data for all Funds (2)

(1) Varying by service, including inflation

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

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE I – PENSION PLANS (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% investment return assumption used in the June 30, 2014 valuation was corrected by CalPERS to no longer be reduced for administrative expenses. The 7.50 percent investment return assumption used in the June 30, 2013 valuation was net of administrative expenses. Administrative expenses were assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent in the June 30, 2013 valuation. Using this lower discount rate resulted in a slightly higher Total Pension Liability and Net Pension Liability in the June 30, 2013 valuation. CalPERS assessed the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

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

The table below reflects the long-term expected real rate of return by asset class for each of the rate plans as of the measurement date of June 30, 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE I – PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net Pension Liability	<u>\$ 11,587,913</u>	<u>\$ 6,909,619</u>	<u>\$ 3,047,144</u>

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

Payable to the Pension Plan: At June 30, 2016 the District had \$38,028 of outstanding contributions payable to the pension plan, which were paid on July 1, 2016.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN

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

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

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

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

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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

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%

For the year ended June 30, 2016, the District made contributions of \$1,120,567, including \$526,170 for current premiums and an additional contribution of \$594,397 to prefund benefits. Plan members made no contributions.

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

Annual required contribution	\$ 719,981
Interest on net OPEB obligation	5,365
Adjustment to annual required contribution	5,134
Annual OPEB cost (expense)	<u>720,212</u>
Contributions made	<u>(1,120,567)</u>
Increase (decrease) in net OPEB obligation	(400,355)
Net OPEB obligation (asset), beginning of year	<u>(301,249)</u>
Net OPEB obligation (asset), end of year	<u>\$ (701,604)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2016 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)
2014	\$ 1,051,676	\$ 1,017,651	96.76%	\$ 76,274
2015	694,543	1,072,066	154.36%	(301,249)
2016	720,212	1,120,567	155.59%	(701,604)

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Funded Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date, the funded status of the Plan was as follows for the year ended June 30, 2016:

	2016
Actuarial accrued liability (AAL)	\$ 10,880,088
Actuarial value of Plan assets	4,471,207
Unfunded actuarial accrued liability (UAAL)	\$ 6,408,881
Funded ratio (actuarial value of Plan assets/AAL)	41.10%
Covered payroll	\$ 5,155,786
UAAL as percentage of covered payroll	124.30%

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, consistent with the long-term perspective of the calculations.

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

NOTE K – RISK MANAGEMENT

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE K – RISK MANAGEMENT (Continued)

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

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and auto liability (includes public officials liability)	\$ 2,000,000	\$ 58,000,000	None
Property damage	100,000	150,000,000	\$1,000 to \$50,000
Crime	100,000	160,000	1,000
Workers compensation	2,000,000	Statutory	None
Employers liability	2,000,000	Statutory	None

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

NOTE L — COMMITMENTS AND CONTINGENT LIABILITIES

The District had the following capital project commitments outstanding as of June 30, 2016:

Ebbetts Pass Reach 3A Pipeline Replacement	\$ 4,039,677
Big Trees Tank Replacement	586,894
Jenny Lind Water Treatment Plant Pretreatment Facility	<u>280,016</u>
Total	<u>\$ 4,906,587</u>

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

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 management, after consultation with counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE M — RESTATEMENT

The District determined it inadvertently included investments in the amount of “cash and cash equivalents” reported in the statement of cash flows as of June 30, 2015. Due to this change, investments of \$14,255,621 were removed from the “cash and cash equivalents” line of the statement of cash flows as of June 30, 2015. Because investments are no longer included in “cash and cash equivalents” the maturities of those investments of \$11,223,423 were added to the “cash flows from investing activities” section of the statement of cash flows as of June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CALAVERAS COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

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

	June 30, 2016	June 30, 2015
Proportion of the Net Pension Liability	0.25186%	0.21557%
Proportionate Share of the Net Pension Liability	\$ 6,909,619	\$ 5,327,739
Covered - Employee Payroll	\$ 5,155,786	\$ 4,793,906
Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	134.02%	111.14%
Plan Fiduciary Net Position	\$ 25,880,156	\$ 26,064,984
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.93%	83.03%

Notes to Schedule:

Benefit Changes: There were no Changes to Benefit Terms.

Changes In Assumptions: The discount rate was changed to 7.65% from 7.5% in the June 30, 2015 valuation.

Omitted Years: GASB Statement No. 68 was Implemented During the year Ended June 30, 2015. No Information was Available Prior to this Date.

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

	June 30, 2016	June 30, 2015
Contractually Required Contribution (Actuarially Determined)	\$ 535,436	\$ 725,590
Contributions in Relation to the Actuarially Determined Contributions	535,436	725,590
Contribution Deficiency (Excess)	\$ -	\$ -
Covered - Employee Payroll	\$ 5,155,786	\$ 4,793,906
Contributions as a Percentage of Covered - Employee Payroll	10.39%	15.14%

Notes to Schedule:

Valuation Date: June 30, 2015 and 2014

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Method	Entry Age Normal Cost Method
Amortization Method	Difference Between Projected and Actual Earnings is Amortized Straight-line Over 5 Years. All Other Amounts are Amortized Straight-line Over Average Remaining Service Life of Participants
Remaining Amortization Period	Not Stated
Asset Valuation Method	5-year Smoothed Market
Inflation	2.75%
Salary Increases	Varies depending on Entry Age and Service
Investment Rate of Return	7.65% (2016), 7.50% (2015), Net of Administrative Expenses; Including Inflation.
Retirement Age	50-67 Years. Probabilities of Retirement are Based on the 2010 CalPERS Experience Study for the Period 1997 to 2007.
Mortality	CalPERS Specific Data from January 2014 Actuarial Experience Study for the Period 1997 to 2011 that Uses 20 Years of Mortality Improvements Using Society of Actuaries Scale BB.

Omitted Years: GASB Statement No. 68 was Implemented During the Year Ended June 30, 2015. No information was Available Prior to this Date.

CALAVERAS COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2014	\$3,966,537	\$ 12,537,626	\$8,571,089	31.64%	\$4,914,480	174.40%
June 30, 2015	3,966,537	10,368,516	6,401,979	38.26%	4,793,906	133.54%
June 30, 2016	4,471,207	10,880,088	6,408,881	41.10%	5,155,786	124.30%

OTHER SUPPLEMENTARY INFORMATION

CALAVERAS COUNTY WATER DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION
ASSESSMENT DISTRICT AGENCY FUND

June 30, 2016 and 2015
(With Prior Year Data for Comparative Purposes Only)

	West Point Acres Fund	Wilseyville Fund	Arnold Sewer Fund	New Hogan/ La Contenta Fund	Lake Tulloch Fund
ASSETS					
Cash and cash equivalents	\$ 34,302	\$ 5	\$ 77,977	\$ 93,448	\$ -
Interest receivable	17		38	45	
Due from County of Calaveras	668		1,666		
Restricted assets:					
Cash and cash equivalents with fiscal agents				1	
TOTAL ASSETS	<u>\$ 34,987</u>	<u>\$ 5</u>	<u>\$ 79,681</u>	<u>\$ 93,494</u>	<u>\$ -</u>
LIABILITIES					
Accounts payable	\$ 35		\$ 230	\$ 54	
Notes payable					\$ 10,741
Due to bond holders	34,952	\$ 5	79,451	93,440	(10,741)
TOTAL LIABILITIES	<u>\$ 34,987</u>	<u>\$ 5</u>	<u>\$ 79,681</u>	<u>\$ 93,494</u>	<u>\$ -</u>

Saddle Creek Fund	DaLee/ Cassidy Fund	Fly in Acres Fund	Wallace Fund	Totals for Comparative Purposes Only	
				2016	2015
\$ 483,126	\$ 68,203	\$ 173,232	\$ 162,740	\$ 1,093,033	\$ 1,022,227
386	66	150	79	781	418
5,835	3,682	7,069	2,342	21,262	18,777
<u>314,968</u>	<u>68,097</u>	<u>136,653</u>		<u>519,719</u>	<u>522,084</u>
<u>\$ 804,315</u>	<u>\$ 140,048</u>	<u>\$ 317,104</u>	<u>\$ 165,161</u>	<u>\$ 1,634,795</u>	<u>\$ 1,563,506</u>
\$ 386	\$ 106	\$ 259	\$ 71	\$ 1,141	\$ 7,248
803,929	139,942	316,845	165,090	10,741	1,556,258
<u>\$ 804,315</u>	<u>\$ 140,048</u>	<u>\$ 317,104</u>	<u>\$ 165,161</u>	<u>\$ 1,634,795</u>	<u>\$ 1,563,506</u>

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

For the Years Ended June 30, 2016 and 2015

	2016	2015
REVENUES		
Water operating revenues	\$ 7,533,019	\$ 7,753,069
Property taxes	1,989,031	1,860,885
Investment income	133,621	157,631
Expansion Fees	1,285,255	330,726
Power sales	423,697	395,354
Capital R&R fees	3,117,700	2,912,325
Other income	47,009	91,343
TOTAL REVENUES	14,529,332	13,501,333
EXPENSES		
Total Operating Expenses	11,097,419	10,897,467
<i>Less: Depreciation:</i>	(2,612,334)	(2,700,445)
Transfers (in)	(151,945)	(34,642)
Transfers out	55,129	
TOTAL EXPENSES	8,388,269	8,162,380
NET REVENUES	6,141,063	5,338,953
Debt Service Payments *	1,830,334	1,821,601
Debt Coverage Ratio - Actual	3.36	2.93
Required Ratio - 2013 Refunding and 2014 Water Revenue Loans	1.25	1.25
<i>Annual Debt Service Payments</i>		
<i>* Includes payments on Compass Bank (Series 2013 Refunding Water Revenue Loan), plus parity debt from Umpqua Bank (Series 2014 Water Revenue Loan).</i>		
NET REVENUES	\$ 6,141,063	\$ 5,338,953
Debt Service Payments (ALL)**	2,294,084	2,157,125
Debt Coverage Ratio - Actual	2.68	2.48
Required Ratio - Wallace WestAmerica Loan	1.15	1.15
Required Ratio - 2013 Refunding and 2014 Water Revenue Loans	1.25	1.25

*** Includes all debt payments, including Compass Bank (Series 2013 Refunding Water Revenue Loan) and Umpqua Bank (Series 2014 Water Revenue Loan).*

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

For the Years Ended June 30, 2016 and 2015

	2016	2015
REVENUES		
Sewer operating revenues	\$4,288,048	\$4,293,819
Property taxes	698,848	648,737
Investment income	88,668	107,032
Expansion Fees	135,648	134,204
Power sales	148,866	131,785
Capital R&R fees	1,166,444	1,070,858
Other income	18,788	47,615
TOTAL REVENUES	6,545,310	6,434,050
EXPENSES		
Total Operating Expenses	6,380,387	6,341,925
<i>Less: Depreciation:</i>	(1,227,377)	(1,262,489)
Transfers (in)	(39,474)	
Transfers out	156,495	34,642
TOTAL EXPENSES	5,270,031	5,114,078
NET REVENUES	1,275,279	1,319,972
Debt Service Payments *	396,935	396,793
Debt Coverage Ratio - Actual	3.21	3.33
Required Ratio - 2013 Refunding and 2014 Sewer Revenue Loans	1.25	1.25
<i>Annual Debt Service Payments</i>		
<i>* Includes payments on Compass Bank (Series 2013 Refunding Sewer Revenue Loan), plus parity debt from Umpqua Bank (Series 2014 Sewer Revenue Loan).</i>		
NET REVENUES	\$ 1,275,279	\$ 1,319,972
Debt Service Payments (ALL)**	488,836	579,291
Debt Coverage Ratio - Actual	2.61	2.28
Required Ratio - Wallace WestAmerica Loan	1.15	1.15
Required Ratio - 2013 Refunding and 2014 Sewer Revenue Loans	1.25	1.25
Required Ratio - Vac-Con Truck Loan	1.40	1.40

*** Includes all debt payments, including Compass Bank (Series 2013 Refunding Sewer Revenue Loan) and Umpqua Bank (Series 2014 Sewer Revenue Loan).*

COMPLIANCE REPORT



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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 *GOVERNMENT 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 business-type activities, each major fund and the fiduciary funds of the Calaveras County Water District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. 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 District's financial statements are free of 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*.

To the Board of Directors
Calaveras County Water District

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.

Richardson & Company, LLP

October 20, 2016