

CALAVERAS COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2019

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CALAVERAS COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2019

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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, 2019, 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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

To the Board of Directors
Calaveras County Water District

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2018 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of contributions to the pension plan, schedule of changes in the net OPEB liability and related ratios and schedule of contributions to the OPEB 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 November 18, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

November 18, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Calaveras County Water District's (“District”) Audited Financial Statements provides management’s discussion and analysis of the District’s financial performance for the period ending June 30, 2019. 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 residents and businesses of Calaveras County. The District is a political subdivision of the State of California and is not a part of, or under the control of, Calaveras County.

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

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

The District currently provides water service to approximately 13,130 residential and commercial customer accounts in five major water service areas. This is an increase of 32 accounts from 2017-18. With the exception of the Wallace service area, the District uses surface water from the Mokelumne, Calaveras and Stanislaus rivers to service its customers. Wallace customers are served by groundwater pumped from wells owned and operated by the District. The District also operates and maintains five major wastewater service areas that provide sanitary sewer services to approximately 4,875 customers. This is an increase of 19 accounts from 2017-18.

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

REQUIRED FINANCIAL STATEMENTS

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

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

The *Statement of Revenues, Expenses and changes in Net Position – Proprietary Funds* accounts for current year’s operating revenue, operating expenses, nonoperating revenues and expenses, capital contributions, and the changes associated with the net position. It can be used to explain the changes in the beginning and ending balances and changes from year over year.

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

The *Statement of Fiduciary Net Position – Assessment District Agency Fund* accounts for the assets and liabilities associated with the Assessment District.

NOTES TO BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

FINANCIAL ANALYSIS OF THE DISTRICT

The District historically analyzed changes in its major funds (water, sewer and public financing authority) "in total." For this reporting period, the District has separated the analysis into water fund and sewer fund, as well as in total. The public financing authority is included in the water fund totals.

Below are some of the key financial highlights for the fiscal year ending June 30, 2019 and how they compare to the prior fiscal year (FY 2017-18). The source documents for the following condensed tables (A-1 through A-7) can be found in the *Basic Financial Statements*. A detailed analysis of the tables' categories and year-to-year changes follows each table.

- The District's Net Position, total assets and deferred outflows less total liabilities and deferred inflows, increased by \$6.4 million
- Operating Revenues increased by \$0.5 million
- Non-operating Revenues increased by \$1.8 million
- Operating Expenses decreased by \$32 thousand
- Non-operating Expenses decreased by \$0.2 million
- Capital assets, net of depreciation, are \$110 million, a \$1.7 million increase
- Long-term liabilities, as reported in Note D, increased 43%, or \$3.7 million
 - This was primarily due to the Umpqua bank loan to paydown the CalPERS UAL (unfunded actuarial liability), February 2019. This liability would have historically been reported only as part of Note I.

BALANCE SHEETS

The District's condensed balance sheets are displayed below:

Table A-1
Condensed Balance Sheets
(in millions)
As of June 30

| | Water* | Sewer | Total | Water | Sewer | Total | Dollar | Percent |
|---|----------------|----------------|-----------------|----------------|----------------|-----------------|---------------|-------------|
| | 2019 | 2019 | 2019 | 2018 | 2018 | 2018 | Change | Change |
| Current assets | \$ 13.1 | \$ 1.3 | \$ 14.4 | \$ 12.2 | \$ 1.2 | \$ 13.4 | \$ 1.0 | 8.0% |
| Noncurrent assets | 17.6 | 9.8 | 27.4 | 17.7 | 8.4 | 26.1 | 1.3 | 5.0% |
| Other noncurrent and OPEB assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0% |
| Interfund Loans | 1.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 1.0 | 100.0% |
| Capital assets, net of accumulated depreciation | 69.9 | 40.1 | 110.0 | 67.6 | 40.7 | 108.3 | 1.7 | 2.0% |
| Deferred outflows of resources | 6.9 | 3.0 | 9.9 | 3.4 | 1.2 | 4.6 | 5.3 | 112.0% |
| Total assets and deferred outflows of resources | 108.5 | 54.2 | 162.7 | 100.9 | 51.5 | 152.4 | 10.3 | 7.0% |
| Current liabilities | 3.2 | 1.1 | 4.3 | 2.3 | 1.0 | 3.3 | 1.0 | 27.0% |
| Noncurrent liabilities | 21.6 | 7.7 | 29.3 | 19.9 | 6.6 | 26.5 | 2.8 | 11.0% |
| Deferred inflows of resources | 0.5 | 0.2 | 0.7 | 0.5 | 0.1 | 0.6 | 0.1 | 9.0% |
| Net position | 83.2 | 45.2 | 128.4 | 78.2 | 43.8 | 122.0 | 6.4 | 5.0% |
| Total liabilities, deferred inflows and net position | 108.5 | 54.2 | 162.7 | 100.9 | 51.5 | 152.4 | 10.3 | 7.0% |
| Detail of net position | | | | | | | | |
| Net investment in capital assets | 68.7 | 39.8 | 108.5 | 65.7 | 40.2 | 105.9 | 2.6 | 2.0% |
| Restricted for expansion and construction | 14.7 | 9.5 | 24.2 | 13.6 | 8.2 | 21.8 | 2.4 | 11.0% |
| Unrestricted | (0.2) | (4.1) | (4.3) | (1.1) | (4.6) | (5.7) | 1.4 | -25.0% |
| Total net position: | \$ 83.2 | \$ 45.2 | \$ 128.4 | \$ 78.2 | \$ 43.8 | \$ 122.0 | \$ 6.4 | 5.0% |

*Includes Public Financing Authority Fund

Current Assets

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

As of June 30, 2019, current assets totaled \$14.4 million, \$1 million higher than the prior year. This increase was due in part to cash and cash equivalents, utility billing accounts receivable and grant receivables.

Noncurrent Assets

Includes restricted cash and investments, and other receivables.

As of June 30, 2019, noncurrent assets totaled \$27.4 million, which is \$1.3 million higher than FY 2017-18. The two main categories, restricted cash and investments, experienced the largest increases as collections of restricted revenue outpaced spending.

Other Noncurrent

Other noncurrent assets totaled \$49 thousand. This is made up of deferred charges for the New Hogan Fiscal Year 2019-20 debt service payments and a note receivable from the New Hogan/La Contenta Assessment District in the amount of \$10,741.

Net Capital Assets

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

As of June 30, 2019, net capital assets totaled \$110 million. There were increases of \$4.7 million in capital assets, less depreciation of \$3.9 million, for a net increase of \$1.7 million. The largest contributor was related to Work in Progress of \$4.5 million. The two main projects were the Jenny Lind Pretreatment Plant, and the Ebbetts Pass Reach 1 project.

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 \$9.9 million. The increase of \$5.3 million is related to the payment of the CalPERS UAL after the measurement period. For more information on pension liability, see Note I of the *Notes to the Basic Financial Statements*.

Current Liabilities

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

As of June 30, 2019, current liabilities totaled \$4.3 million, \$1 million higher than the prior year. This increase is a combination of higher than prior year Accounts Payable accruals related to project costs, and the current portion of the Districts new CalPERS UAL Loan.

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.

Noncurrent liabilities totaled \$29.3 million as of June 30, 2019. This is an increase over 2017-18 of \$2.8 million. This is primary due to the CalPERS UAL Loan.

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, which is almost the same as last year. For more information on the pension plan, see Note I of the *Notes to the Basic Financial Statements*.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The table below displays a condensed version of the Statement of Revenues, Expenses and Changes in Net Position for the year ending June 30, 2019. The District's Net Position in 2019 increased from \$122 million to \$128.4 million, or \$6.4 million. This is a combination of increased revenues, reduction in expenditures, and increases related to capital contributions.

Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Position
(in millions)
As of June 30

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|---|---------------|---------------|---------------|---------------|---------------|---------------|------------------|-------------------|
| Operating revenues | \$ 8.1 | \$ 4.6 | \$ 12.7 | \$ 7.9 | \$ 4.3 | \$ 12.2 | \$ 0.5 | 3.0% |
| Nonoperating revenues | 4.7 | 1.4 | 6.1 | 3.3 | 1.0 | 4.3 | 1.8 | 44.0% |
| Total revenues | 12.8 | 6.0 | 18.8 | 11.2 | 5.3 | 16.5 | 2.3 | 14.0% |
| Operating expenses | 11.1 | 5.1 | 16.2 | 10.7 | 5.6 | 16.3 | (0.1) | 0.0% |
| Depreciation | 2.7 | 1.2 | 3.9 | 2.7 | 1.2 | 3.9 | 0.0 | 3.0% |
| Nonoperating expenses | 0.3 | 0.1 | 0.4 | 0.5 | 0.1 | 0.6 | (0.2) | -62.0% |
| Total expenses | 14.1 | 6.4 | 20.5 | 13.9 | 6.9 | 20.8 | (0.3) | -2.0% |
| Net (Loss) income before capital contributions | (1.3) | (0.4) | (1.7) | (2.7) | (1.6) | (4.3) | 2.6 | -60.0% |
| Expansion fees | 0.5 | 0.5 | 1.0 | 0.4 | 0.1 | 0.5 | 0.5 | 78.0% |
| Capital renovation and replacement (R&R) fees | 3.3 | 1.2 | 4.5 | 3.3 | 1.2 | 4.5 | 0.0 | 0.0% |
| Other capital contributions | 2.5 | 0.2 | 2.7 | 0.8 | 0.0 | 0.8 | 1.9 | 254.0% |
| Ebbetts Pass Reach 3a Pipeline (USDA) Grant | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 0.6 | (0.6) | -100.0% |
| Total capital contributions and transfers | 6.3 | 1.9 | 8.2 | 5.1 | 1.3 | 6.4 | 1.8 | 28.0% |
| Change in net position | 5.0 | 1.5 | 6.5 | 2.4 | (0.3) | 2.1 | 4.4 | 133.0% |
| Net position at beginning of year as previously reported | 78.2 | 43.7 | 121.9 | 81.1 | 45.9 | 127.0 | (5.1) | -4.0% |
| Restatement | 0.0 | 0.0 | 0.0 | (5.3) | (1.8) | (7.1) | 7.1 | -100.0% |
| Net position at beginning of year - as restated | 78.2 | 43.7 | 121.9 | 75.8 | 44.1 | 119.9 | 2.0 | 2.0% |
| Net position at end of year | \$ 83.2 | \$ 45.2 | \$ 128.4 | \$ 78.2 | \$ 43.8 | \$ 122.0 | \$ 6.4 | 5.0% |

Operating Revenues

Operating revenues account for approximately sixty-three percent (68%) of the District's revenues. The majority of the revenues come from water sales, including base rates and consumptive revenues.

Table A-3
Operating Revenues
(in millions)
As of June 30

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|-------------------|
| Water sales and sewer charges | \$ 7.7 | \$ 4.5 | \$ 12.2 | \$ 7.6 | \$ 4.2 | \$ 11.8 | \$ 0.4 | 3.0% |
| Water and sewer fees | 0.4 | 0.1 | 0.5 | 0.3 | 0.1 | 0.4 | 0.1 | 3.0% |
| Total operating revenues | \$ 8.1 | \$ 4.6 | \$ 12.7 | \$ 7.9 | \$ 4.3 | \$ 12.2 | \$ 0.5 | 3.0% |

A growth in new accounts and increased customer water consumption in FY 2018-19 led to a \$0.5 million increase in operating revenues over the prior fiscal year.

Nonoperating Revenues

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

Nonoperating revenues, increased \$1.8 million, from \$4.3 million in FY 2017-18 to \$6.1 million in FY 2018-19. Increases in investment income and an accounting change related reimbursable federal and state regulatory fees. At the request of our auditors, Richardson & Company, effective Fiscal Year 2018-19 the District now recognizes an expense when the government agency is paid, and revenue when the reimbursing agency is invoiced.

Table A-4
Nonoperating Revenues
(in millions)
As of June 30

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|-------------------|
| Property taxes and assessments | \$ 2.5 | \$ 0.7 | \$ 3.2 | \$ 2.3 | \$ 0.6 | \$ 2.9 | \$ 0.3 | 10.0% |
| Investment income | 0.6 | 0.2 | 0.8 | 0.3 | 0.1 | 0.4 | 0.4 | 111.0% |
| Power sales | 0.6 | 0.2 | 0.8 | 0.6 | 0.2 | 0.8 | 0.0 | 6.0% |
| Other income | 1.0 | 0.3 | 1.3 | 0.1 | 0.1 | 0.2 | 1.1 | 602.0% |
| Grant revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -59.0% |
| Total nonoperating revenues | \$ 4.7 | \$ 1.4 | \$ 6.1 | \$ 3.3 | \$ 1.0 | \$ 4.3 | \$ 1.8 | 44.0% |

Operating Expenses, Excluding Depreciation

Approximately sixty percent (60%) of the District's operating expenses are salaries and benefits, followed by other operating expenses and professional services. Other significant operating expenses include other utility services and repairs and maintenance.

Table A-5
Operating Expenses, Excluding Depreciation
(in millions)
As of June 30

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|---|----------------|---------------|----------------|----------------|---------------|----------------|------------------|-------------------|
| Salaries and benefits | \$ 6.8 | \$ 2.9 | \$ 9.7 | \$ 7.0 | \$ 3.2 | \$ 10.2 | \$ (0.5) | -4.0% |
| Repairs and maintenance | 0.6 | 0.3 | 0.9 | 0.7 | 0.3 | 1.0 | (0.1) | -7.0% |
| Materials and supplies | 0.5 | 0.3 | 0.8 | 0.5 | 0.5 | 1.0 | (0.2) | -9.0% |
| Utility services | 0.7 | 0.4 | 1.1 | 0.7 | 0.5 | 1.2 | (0.1) | -3.0% |
| Professional services | 0.8 | 0.3 | 1.1 | 1.0 | 0.4 | 1.4 | (0.3) | -21.0% |
| Vehicle and equipment | 0.2 | 0.1 | 0.3 | 0.2 | 0.1 | 0.3 | 0.0 | 23.0% |
| Other operating expenses | 1.4 | 0.8 | 2.2 | 0.5 | 0.5 | 1.0 | 1.2 | 88.0% |
| Travel and training | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 24.0% |
| Director costs | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 5.0% |
| Postemployment benefits | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | (0.1) | -148.0% |
| Total operating expenses, excluding depreciation | \$ 11.1 | \$ 5.1 | \$ 16.2 | \$ 10.7 | \$ 5.6 | \$ 16.3 | \$ (0.1) | 0.0% |

Total FY 2018-19 operating expenses, excluding depreciation, were \$16.2 million. While there were increases and decreases throughout this category, the overall change compared to the prior year was a decrease of \$32 thousand.

Nonoperating Expenses

Includes gain/(loss) on the sale of capital assets, and debt service interest expense.

Table A-6
Nonoperating Expenses
(in millions)
As of June 30

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|-------------------|
| (Gain)/loss on sale of capital assets | \$ - | \$ - | \$ - | \$ 0.3 | \$ - | \$ 0.3 | \$ (0.3) | -101.0% |
| Interest expense | 0.3 | 0.1 | 0.4 | 0.2 | 0.1 | 0.3 | 0.1 | -4.0% |
| Total nonoperating expenses | \$ 0.3 | \$ 0.1 | \$ 0.4 | \$ 0.5 | \$ 0.1 | \$ 0.6 | \$ (0.2) | -69.0% |

Nonoperating expenses were \$0.4 million, There was a small gain on sale of capital assets compared to a much larger loss in the prior year. The interest expense remains 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

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|---|---------------|---------------|---------------|---------------|---------------|---------------|------------------|-------------------|
| Operating revenues | \$ 8.1 | \$ 4.6 | \$ 12.7 | \$ 7.9 | \$ 4.3 | \$ 12.2 | \$ 0.5 | 3.0% |
| Operating expenses | (11.1) | (5.1) | (16.2) | (10.7) | (5.6) | (16.3) | 0.1 | 0.0% |
| Net operating income/(loss), excluding depreciation | \$ (3.0) | \$ (0.5) | \$ (3.5) | \$ (2.8) | \$ (1.3) | \$ (4.1) | \$ 0.6 | -10.0% |

In spite of increased water sales, a FY 2018-19 net operating loss still exists. Overall, Operating Revenues increased \$0.5 million while Operating Expenses remained flat.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

Table A-8
Capital Assets, Net of Accumulated Depreciation
(in millions)
As of June 30

| | Water 2019 | Sewer 2019 | Total 2019 | Water 2018 | Sewer 2018 | Total 2018 | Dollar Change | Percent Change |
|---|---------------|---------------|---------------|---------------|---------------|---------------|------------------|-------------------|
| Capital assets, not being depreciated | | | | | | | | |
| Land | \$ 4.2 | \$ 9.4 | \$ 13.6 | \$ 4.1 | \$ 9.3 | \$ 13.4 | \$ 0.2 | 1.0% |
| Construction in progress | 6.9 | 0.5 | 7.4 | 2.3 | 0.6 | 2.9 | 4.5 | 154.0% |
| Total capital assets, not being depreciated | 11.1 | 9.9 | 21.0 | 6.4 | 9.9 | 16.3 | 4.7 | 29.0% |
| Capital assets, being depreciated | | | | | | | | 0.0% |
| Buildings | 6.0 | 1.2 | 7.2 | 6.3 | 1.3 | 7.6 | (0.4) | -4.0% |
| Utility system - infrastructure | 51.5 | 28.2 | 79.7 | 53.6 | 28.6 | 82.2 | (2.5) | -3.0% |
| Machinery and equipment | 1.3 | 0.8 | 2.1 | 1.3 | 0.9 | 2.2 | (0.1) | -5.0% |
| Total capital assets, being depreciated | 58.8 | 30.2 | 89.0 | 61.2 | 30.8 | 92.0 | (3.0) | -3.0% |
| Total capital assets, net | \$ 69.9 | \$ 40.1 | \$ 110.0 | \$ 67.6 | \$ 40.7 | \$ 108.3 | \$ 1.7 | 2.0% |

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

Net capital assets totaled approximately \$110 million, \$1.7 million higher than the prior year. An increase of \$4.5 million in capital assets and \$0.7 million in equipment and utility, was offset by reductions of \$3.9 million in accumulated depreciation.

The major capital asset additions for fiscal year 2018-19 include:

- \$3.4 million for the Jenny Lind Water Treatment Plant Pretreatment Project
- \$1.0 million for the Ebbetts Pass Reach 1 Water Line Replacement Project

LONG-TERM DEBT AND LOANS

As of June 30, 2019, the District had \$11.6 million in long-term debt and loans outstanding, and a compensated absences balance of \$0.8 million. Total long-term liabilities increased \$3.7 million, or 43% from FY 2017-18 as the District closed the CalPERS UAL loan with Umpqua Bank.

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

| | 2019 | 2018 | Dollar Change | Percent Change |
|-----------------------------------|-----------------------|----------------------|----------------------|---------------------|
| Water Fund: | | | | |
| Water Revenue Loans | \$ 2.3 | \$ 3.4 | \$ (1.1) | -33.0% |
| U.S. Bureau of Reclamation Note | 0.2 | 0.3 | 0.0 | -15.0% |
| Pension Loans | 3.8 | 0.2 | 3.6 | 2105.0% |
| Total Water Fund loans and notes | <u>6.3</u> | <u>3.9</u> | <u>2.5</u> | <u>64.0%</u> |
| Compensated absences | <u>0.5</u> | <u>0.6</u> | <u>0.0</u> | <u>-6.0%</u> |
| Total Water Fund liabilities | <u>6.8</u> | <u>4.5</u> | <u>2.5</u> | <u>55.0%</u> |
| Sewer Fund: | | | | |
| Sewer Revenue Loans | 0.8 | 1.1 | (0.4) | -33.0% |
| U.S. Bureau of Reclamation Note | 0.1 | 0.1 | 0.0 | -15.0% |
| Pension Loans | 1.9 | 0.1 | 1.8 | 2105.0% |
| Total Sewer Fund loans and notes | <u>2.8</u> | <u>1.3</u> | <u>1.4</u> | <u>105.0%</u> |
| Compensated absences | <u>0.3</u> | <u>0.3</u> | <u>(0.1)</u> | <u>-23.0%</u> |
| Total Sewer Fund liabilities | <u>3.1</u> | <u>1.6</u> | <u>1.3</u> | <u>79.0%</u> |
| Public Financing Authority | | | | |
| Water Revenue Bonds | <u>2.5</u> | <u>2.6</u> | <u>0.0</u> | <u>-2.0%</u> |
| Total long-term liabilities | <u><u>\$ 12.4</u></u> | <u><u>\$ 8.7</u></u> | <u><u>\$ 3.7</u></u> | <u><u>43.0%</u></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

Calaveras County's employment picture continued to improve as the unemployment rate dropped from an adjusted 4.1 percent (4.1%) in June 2018 to 3.2 percent (3.2%) in June 2019. The county has now reached a "full employment" scenario where future job growth will be minimal and the unemployment rate will not experience significant declines. Approximately 25% of our available workforce is commuting to external counties, with San Joaquin and Amador being the two largest draws. Furthermore, the county's population is projected to decline annually 0.2 percent (0.2%) from 2019 to 2023. As a result, wage growth is expected to slow to 1.3 percent (1.3%) per year between 2019 and 2023.

While the public sector remains the County's largest employer, accounting for approximately twenty-eight percent (28%) of all jobs, future job gains are expected to occur in leisure services, healthcare and education, and retail trade. It is likely that a portion of these new jobs will be filled by non-county residents due to the aging of the county's current workforce and projected county population declines. With fewer people moving into the county, demand for construction of new housing units will likely remain low. Thus, the number of new water and sewer service connections will also remain low, as will capacity fee revenues. Conversely, slower growth does delay the need to expand the water and sewer systems to accommodate new connections. The County of Calaveras did approve the General Plan in November 2019. However, it is unknown what overall impacts that will have on growth in the county at this point.

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

The state recently passed SB 606 and AB 1668 which establishes an indoor, per person water use goal of 55 gallons per day starting in 2022 and lowers it to 50 gallons per day starting in 2030. Targets for outdoor water use will be set differently for each area taking into account factors like local precipitation and climate zone. It is unknown at this time how consumptive water sales and revenues will be affected. Although the District has ample water supplies to meet customer demands, the District's customers have yet to return to pre-drought consumptive levels.

The District adopted a five-year water and sewer rate plan that runs from 2018 through 2023. These additional operating revenues will help offset the costs of operating and maintaining water and sewer systems on a 24/7 basis, as much of the treatment and regulatory costs are fixed. Although the District remains vigilant in implementing cost-cutting and efficiency measures to reduce expenses, these measures cannot be allowed to compromise the District's ability to meet public health and safety requirements. As always, the District is committed to monitoring its fiscal condition as well as the state of the local economy.

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.cwd.org.

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BASIC FINANCIAL STATEMENTS

CALAVERAS COUNTY WATER DISTRICT

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2019

(With Prior Year Data for Comparative Purposes Only)

| | Business-type Activities - Enterprise Funds | | | Totals for Comparative Purposes Only | |
|--|---|----------------------|---------------------|--------------------------------------|-----------------------|
| | Water | Sewer | Public | 2019 | 2018 |
| | | | Financing Authority | | |
| ASSETS AND DEFERRED | | | | | |
| OUTFLOWS OF RESOURCES | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 9,470,429 | \$ 145,681 | | \$ 9,616,110 | \$ 9,133,048 |
| Investments | 500,628 | | | 500,628 | 578,161 |
| Accounts receivable | 2,093,099 | 996,038 | | 3,089,137 | 2,815,931 |
| Taxes receivable | 134,513 | 35,319 | | 169,832 | 185,253 |
| Grants receivable | 784,010 | 68,612 | | 852,622 | 488,324 |
| Interest receivable | 82,288 | 19,083 | | 101,371 | 66,468 |
| Prepaid expenses and other assets | 65,073 | 48,484 | | 113,557 | 113,940 |
| Deposits | 4,015 | 7,835 | | 11,850 | 4,500 |
| TOTAL CURRENT ASSETS | 13,134,055 | 1,321,052 | | 14,455,107 | 13,385,625 |
| NONCURRENT ASSETS | | | | | |
| Restricted Assets: | | | | | |
| Cash and cash equivalents | 16,561,291 | 7,250,179 | | 23,811,470 | 20,841,341 |
| Investments | 960,516 | 549,933 | | 1,510,449 | 1,720,634 |
| Interest receivable | 59,125 | 26,271 | | 85,396 | 57,825 |
| Due from other funds | | | | | 1,126,267 |
| Interfund loans | | 1,981,870 | | 1,981,870 | 2,351,139 |
| Total Restricted Assets | 17,580,932 | 9,808,253 | | 27,389,185 | 26,097,206 |
| Other noncurrent assets | 28,034 | 10,368 | | 38,402 | 38,109 |
| Notes receivable | 7,841 | 2,900 | | 10,741 | 10,742 |
| Interfund loans | 1,023,409 | | | 1,023,409 | |
| Capital assets: | | | | | |
| Nondepreciable | 11,109,590 | 9,860,632 | | 20,970,222 | 16,308,540 |
| Depreciable, net | 58,799,294 | 30,210,644 | | 89,009,938 | 91,966,094 |
| Total Capital Assets, Net | 69,908,884 | 40,071,276 | | 109,980,160 | 108,274,634 |
| TOTAL NONCURRENT ASSETS | 88,549,100 | 49,892,797 | | 138,441,897 | 134,420,691 |
| TOTAL ASSETS | 101,683,155 | 51,213,849 | | 152,897,004 | 147,806,316 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Pension plan | 5,812,419 | 2,605,516 | | 8,417,935 | 3,405,469 |
| Other postemployment benefits | 1,038,458 | 384,087 | | 1,422,545 | 1,228,844 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 108,534,032 | \$ 54,203,452 | \$ - | \$ 162,737,484 | \$ 152,440,629 |

CALAVERAS COUNTY WATER DISTRICT

BALANCE SHEET - PROPRIETARY FUNDS (Continued)

June 30, 2019

(With Prior Year Data for Comparative Purposes Only)

| | Business-type Activities - Enterprise Funds | | | Totals for Comparative Purposes Only | |
|--|---|----------------------|------------------------|---|-----------------------|
| | Water | Sewer | Public | 2019 | 2018 |
| | | | Financing Authority | | |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 1,239,297 | \$ 362,989 | | \$ 1,602,286 | \$ 670,448 |
| Deposits payable | 56,098 | 19,309 | | 75,407 | 92,983 |
| Accrued interest payable | 62,463 | 27,867 | \$ 18,914 | 109,244 | 56,896 |
| Current portion of long-term liabilities | 1,803,937 | 710,340 | 44,700 | 2,558,977 | 2,607,349 |
| TOTAL CURRENT LIABILITIES | 3,161,795 | 1,120,505 | 63,614 | 4,345,914 | 3,427,676 |
| NONCURRENT LIABILITIES | | | | | |
| Unearned revenue | 15,221 | 5,630 | | 20,851 | |
| Due to other funds | | | | | 1,126,267 |
| Interfund loans | 1,981,870 | 1,023,409 | | 3,005,279 | 2,351,139 |
| Retention payable | 145,206 | | | 145,206 | 12,723 |
| Noncurrent portion of long-term liabilities | 5,053,473 | 2,284,180 | 2,490,900 | 9,828,553 | 6,067,806 |
| Net pension liability | 7,339,341 | 2,714,550 | | 10,053,891 | 10,242,016 |
| Net other postemployment benefits liability | 4,606,892 | 1,703,919 | | 6,310,811 | 6,662,940 |
| TOTAL NONCURRENT LIABILITIES | 19,142,003 | 7,731,688 | 2,490,900 | 29,364,591 | 26,462,891 |
| TOTAL LIABILITIES | 22,303,798 | 8,852,193 | 2,554,514 | 33,710,505 | 29,890,567 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Pension plan | 454,598 | 168,139 | | 622,737 | 489,307 |
| Other postemployment benefits | 46,441 | 17,176 | | 63,617 | 141,332 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 501,039 | 185,315 | | 686,354 | 630,639 |
| NET POSITION | | | | | |
| Net investment in capital assets | 68,743,782 | 39,786,866 | | 108,530,648 | 105,913,689 |
| Restricted for expansion and construction | 14,731,307 | 9,486,645 | | 24,217,952 | 21,844,647 |
| Unrestricted | 2,254,106 | (4,107,567) | (2,554,514) | (4,407,975) | (5,838,913) |
| TOTAL NET POSITION (DEFICIT) | 85,729,195 | 45,165,944 | (2,554,514) | 128,340,625 | 121,919,423 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 108,534,032 | \$ 54,203,452 | \$ - | \$ 162,737,484 | \$ 152,440,629 |

The accompanying notes are an integral part of these financial statements

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS

For the Year Ended June 30, 2019
(With Prior Year Data for Comparative Purposes Only)

| | Business-type Activities - Enterprise Funds | | | Totals for Comparative Purposes Only | |
|--|---|----------------------|----------------------------------|---|-----------------------|
| | Water | Sewer | Public Financing Authority | 2019 | 2018 |
| | | | | | |
| OPERATING REVENUE | | | | | |
| Water sales and sewer charges | \$ 7,721,769 | \$ 4,464,513 | | \$ 12,186,282 | \$ 11,830,690 |
| Water and sewer fees | 350,113 | 115,654 | | 465,767 | 452,173 |
| TOTAL OPERATING REVENUE | 8,071,882 | 4,580,167 | | 12,652,049 | 12,282,863 |
| OPERATING EXPENSES | | | | | |
| Salaries and benefits | 6,764,124 | 2,930,770 | | 9,694,894 | 10,141,876 |
| Repairs and maintenance | 643,460 | 318,491 | | 961,951 | 1,031,641 |
| Materials and supplies | 510,172 | 312,466 | | 822,638 | 905,074 |
| Utility services | 682,315 | 409,695 | | 1,092,010 | 1,121,399 |
| Professional services | 792,560 | 331,969 | | 1,124,529 | 1,420,125 |
| Vehicle and equipment | 244,914 | 137,709 | | 382,623 | 310,449 |
| Other operating expenses | 1,409,914 | 648,903 | | 2,058,817 | 1,094,973 |
| Travel and training | 44,054 | 21,491 | | 65,545 | 52,684 |
| Director costs | 94,824 | 35,384 | | 130,208 | 124,211 |
| Postemployment benefits | (44,407) | (8,681) | | (53,088) | 109,764 |
| Depreciation | 2,749,810 | 1,241,799 | | 3,991,609 | 3,866,861 |
| TOTAL OPERATING EXPENSES | 13,891,740 | 6,379,996 | | 20,271,736 | 20,179,057 |
| NET LOSS FROM OPERATIONS | (5,819,858) | (1,799,829) | | (7,619,687) | (7,896,194) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Property taxes and assessments | 2,519,303 | 656,297 | | 3,175,600 | 2,884,008 |
| Investment income | 583,502 | 240,259 | | 823,761 | 390,753 |
| Power sales | 586,131 | 216,788 | | 802,919 | 756,360 |
| Other income | 1,018,897 | 316,878 | | 1,335,775 | 190,166 |
| Grant revenues | 23,207 | 8,583 | | 31,790 | 78,018 |
| Gain/(loss) on sale of capital assets | 2,395 | 843 | | 3,238 | (553,508) |
| Interest expense | (171,281) | (89,500) | \$ (57,218) | (317,999) | (272,674) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 4,562,154 | 1,350,148 | (57,218) | 5,855,084 | 3,473,123 |
| NET (LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS | (1,257,704) | (449,681) | (57,218) | (1,764,603) | (4,423,071) |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | | | |
| Expansion fees | 510,219 | 498,226 | | 1,008,445 | 567,667 |
| Capital renovation and replacement (R & R) fees | 3,264,713 | 1,181,826 | | 4,446,539 | 4,449,341 |
| Other capital contributions | 2,541,819 | 189,002 | | 2,730,821 | 770,880 |
| Ebbetts Pass Reach 3A Pipeline (USDA) grant | | | | | 629,795 |
| Transfers in | | 18,957 | 101,243 | 120,200 | 4,212,982 |
| Transfers (out) | (120,200) | | | (120,200) | (4,212,982) |
| TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS | 6,196,551 | 1,888,011 | 101,243 | 8,185,805 | 6,417,683 |
| CHANGE IN NET POSITION | 4,938,847 | 1,438,330 | 44,025 | 6,421,202 | 1,994,612 |
| Net position (deficit) at beginning of year - as previously reported | 80,790,348 | 43,727,614 | (2,598,539) | 121,919,423 | 127,035,501 |
| Restatement | | | | | (7,110,690) |
| Net position at beginning of year - as restated | 80,790,348 | 43,727,614 | (2,598,539) | 121,919,423 | 119,924,811 |
| NET POSITION (DEFICIT) AT END OF YEAR | \$ 85,729,195 | \$ 45,165,944 | \$ (2,554,514) | \$ 128,340,625 | \$ 121,919,423 |

The accompanying notes are an integral part of these financial statements

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2019
(With Prior Year Data for Comparative Purposes Only)

| | Business-type Activities - Enterprise Funds | | | Totals for Comparative Purposes Only | |
|---|---|---------------------|----------------------------------|---|----------------------|
| | Water | Sewer | Public Financing Authority | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash receipts from customers | \$ 7,896,749 | \$ 4,469,855 | | \$ 12,366,604 | \$ 12,152,165 |
| Cash paid to suppliers for goods and services | (3,210,208) | (2,052,442) | | (5,262,650) | (5,581,339) |
| Cash paid to employees for services | (7,180,942) | (3,152,036) | | (10,332,978) | (9,929,248) |
| NET CASH USED FOR OPERATING ACTIVITIES | <u>(2,494,401)</u> | <u>(734,623)</u> | | <u>(3,229,024)</u> | <u>(3,358,422)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Property taxes and assessments | 2,531,670 | 659,351 | | 3,191,021 | 2,932,942 |
| Power sales | 586,131 | 216,788 | | 802,919 | 756,360 |
| Other income | 1,018,898 | 316,878 | | 1,335,776 | 190,166 |
| Operating grants from outside agencies | 23,207 | (34,499) | | (11,292) | (8,921) |
| Proceeds from noncapital pension loan | 3,795,550 | 1,869,450 | | 5,665,000 | |
| Principal paid on noncapital pension loan | (172,133) | (84,783) | | (256,916) | |
| Contribution of pension loan proceeds to CalPERS | (3,714,857) | (1,829,705) | | (5,544,562) | |
| Interfund transfers | (285,368) | 285,368 | | | |
| NET CASH (USED) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>3,783,098</u> | <u>1,398,848</u> | | <u>5,181,946</u> | <u>3,870,547</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Capital contributions received | 5,995,535 | 1,869,054 | | 7,864,589 | 7,272,556 |
| Acquisition of capital assets | (4,972,140) | (616,007) | | (5,588,147) | (3,642,643) |
| Proceeds from disposals of capital assets | 19,781 | 6,952 | | 26,733 | 144,132 |
| Interfund capital transfers | (101,243) | | 101,243 | | |
| Principal paid on long-term liabilities | (1,153,334) | (389,226) | (43,700) | (1,586,260) | (1,926,718) |
| Interest payments on long-term liabilities | (136,900) | (71,208) | (57,543) | (265,651) | (283,757) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(348,301)</u> | <u>799,565</u> | | <u>451,264</u> | <u>1,563,570</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Maturities of investments | 210,104 | 77,614 | | 287,718 | 1,103,739 |
| Purchases of investments | | | | | 1,055,815 |
| Interest received | 542,279 | 219,008 | | 761,287 | 325,717 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>752,383</u> | <u>296,622</u> | | <u>1,049,005</u> | <u>2,485,271</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | |
| | 1,692,779 | 1,760,412 | | 3,453,191 | 4,560,966 |
| Cash and cash equivalents at beginning of year | 24,338,941 | 5,635,448 | | 29,974,389 | 25,413,423 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 26,031,720</u> | <u>\$ 7,395,860</u> | <u>\$ -</u> | <u>\$ 33,427,580</u> | <u>\$ 29,974,389</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINING BALANCE SHEET | | | | | |
| Cash and cash equivalents | \$ 9,470,429 | \$ 145,681 | | \$ 9,616,110 | \$ 9,133,048 |
| Restricted cash and cash equivalents | 16,561,291 | 7,250,179 | | 23,811,470 | 20,841,341 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 26,031,720</u> | <u>\$ 7,395,860</u> | <u>\$ -</u> | <u>\$ 33,427,580</u> | <u>\$ 29,974,389</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Data for Comparative Purposes Only)

| | Business-type Activities - Enterprise Funds | | | Totals for Comparative Purposes Only | |
|---|---|---------------------|----------------------------------|---|-----------------------|
| | Water | Sewer | Public Financing Authority | 2019 | 2018 |
| RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES: | | | | | |
| Net loss from operations | \$ (5,819,858) | \$ (1,799,829) | | \$ (7,619,687) | \$ (7,896,194) |
| Adjustments to reconcile net loss from operations to net cash used for operating activities: | | | | | |
| Depreciation | 2,749,810 | 1,241,799 | | 3,991,609 | 3,866,861 |
| Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources: | | | | | |
| Accounts receivable | (162,087) | (111,119) | | (273,206) | (136,382) |
| Prepaid expenses and other assets | 18,103 | (17,720) | | 383 | (13,095) |
| Deposits | (730) | (6,620) | | (7,350) | (4,500) |
| Deferred charges | (215) | (78) | | (293) | (2,345) |
| Net pension liability and related deferred inflows and outflows of resources | (63,184) | (82,960) | | (146,144) | 758,214 |
| Accounts payable and accrued expenses | 813,745 | 118,093 | | 931,838 | 68,970 |
| Deposits payable | (12,831) | (4,745) | | (17,576) | 8,029 |
| Unearned revenue | 15,221 | 5,630 | | 20,851 | |
| Compensated absences | (32,375) | (77,074) | | (109,449) | (7,980) |
| NET CASH USED FOR OPERATING ACTIVITIES | <u>\$ (2,494,401)</u> | <u>\$ (734,623)</u> | <u>\$ -</u> | <u>\$ (3,229,024)</u> | <u>\$ (3,358,422)</u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES: | | | | | |
| Change in unrealized gain/loss on investments | \$ 6,450 | \$ 3,212 | | \$ 9,662 | \$ 52,319 |
| Capital asset purchases payable | \$ 939,181 | \$ 58,596 | | \$ 997,777 | \$ (56,506) |
| Developer donated assets | \$ 178,650 | \$ 132,224 | | \$ 310,874 | |

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, 2019

(With Prior Year Data for Comparative Purposes Only)

| | Agency Funds | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Cash and cash equivalents | \$ 1,119,036 | \$ 1,141,438 |
| Interest receivable | 3,770 | 2,956 |
| Due from County of Calaveras | 24,228 | 21,999 |
| Restricted assets: | | |
| Cash and cash equivalents with fiscal agents | 531,858 | 527,289 |
| TOTAL ASSETS | \$ 1,678,892 | \$ 1,693,682 |
| LIABILITIES | | |
| Notes payable | \$ 10,742 | \$ 10,742 |
| Due to other governments | 263,761 | 327,322 |
| Due to bond holders | 1,404,389 | 1,355,618 |
| TOTAL LIABILITIES | \$ 1,678,892 | \$ 1,693,682 |

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

CALAVERAS COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019

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 13,100 municipal, residential and commercial customers; retail sewer services to approximately 4,900 customers; and provides wholesale treated water to two independent retail water service providers. Water and sewer services are provided to five major operational areas and three smaller service areas within the boundaries of the District. The District is also engaged in the development of hydroelectric power for financial support and maximizing its 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 the New Hogan Reservoir on the Calaveras River and water rights from various other sources. The District's facilities consist of five water treatment plants, twenty-eight treated water storage facilities and thirteen sewer treatment facilities.

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

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

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

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

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

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 rate payers of the District.

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

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

The District also reports the following fiduciary fund:

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

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

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

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

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

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

Restricted Assets: Restricted assets consist of unspent expansion and capital renovation and replacement (R & R) fees that are restricted to certain expansion and construction projects. Restricted assets also include unspent

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

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

bond proceeds that are restricted to future bond payments. Fiscal agent cash and cash equivalents in the Agency Funds represents amounts required to be held for future debt payments by the related bond indenture. Amounts payable from restricted assets in the Water and Sewer Funds at June 30, 2019 totaled \$3,241,337 and \$831,659, respectively, including accounts payable and principal payable on the Umpqua Bank 2014 Water and Sewer Revenue Loans as described in Note D.

Interfund Transactions: During the course of operations, numerous transactions occur between individual enterprise funds that may result in an amount owed between funds. “Due to and from other funds” represents short-term interfund receivables and payables. Interfund loans represent the noncurrent portion of interfund borrowings. The interfund loans outstanding between the Water and Sewer Fund at year-end includes a building loan for the District’s operations headquarters project, a loan to cover debt service for the Jenny Lind water expansion funds loan and a long-term borrowing by the Sewer Fund from the Water Fund to cover cash deficits. Repayment terms are discussed in Note E.

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

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

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

Deferred Inflows and Outflows of Resources: In addition to assets and liabilities, the balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the District’s pension plan under GASB Statement No. 68 as described in Note I and OPEB plan under GASB Statement No. 75 as described in Note J.

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

Pension Plan: For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense related to the pension plan, information about the fiduciary net position of the District’s CalPERS plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

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

contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Other Postemployment Benefits Plan (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of the plan held by PARS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 73% to the Water Fund and 27% to the Sewer Fund according to the relative number of water and sewer accounts.

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

Comparative Totals: The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018 from which the summarized information was derived.

Reclassifications: The District reclassified unrestricted cash and net position of \$520,464 and \$192,500 in the Water and Sewer Fund, respectively, that was inadvertently reported as restricted for debt service in 2018. In addition, it was determined in 2019 that the amount restricted for expansion and construction and the net investment in capital assets was misstated due to not accounting for unspent debt proceeds appropriately. This resulted in an increase in the net investment in capital assets of \$2,578,308 offset by a decrease in net position restricted for expansion and construction of \$984,438 and a decrease in unrestricted net position of \$1,593,870. These reclassifications had no effect on total assets, liabilities, net position or change in net position.

New Pronouncements: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

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

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to government financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the reporting periods beginning after June 15, 2018.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement enhances disclosures about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. Interest cost incurred before the end of a construction period will be recognized as an expense rather than being recorded as part of the cost of capital assets in a business-type activity or enterprise fund and interest cost incurred by a fund using the current financial resources measurement focus before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018.

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, 2019:

| | Proprietary Funds | Fiduciary Funds | Total |
|---|----------------------|---------------------|----------------------|
| Cash and cash equivalents | \$ 9,616,110 | \$ 1,119,036 | \$ 10,735,146 |
| Investments | 500,628 | | 500,628 |
| Restricted cash and cash equivalents | 23,811,470 | | 23,811,470 |
| Restricted cash and cash equivalents with fiscal agents | | 531,858 | 531,858 |
| Restricted investments | 1,510,449 | | 1,510,449 |
| | <u>\$ 35,438,657</u> | <u>\$ 1,650,894</u> | <u>\$ 37,089,551</u> |
| Total cash and investments | | | |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

Cash and investments were classified according to GASB Statement No. 40 as follows at June 30, 2019:

| | Proprietary Funds | Fiduciary Funds | Total |
|--|----------------------|---------------------|----------------------|
| Cash on hand | \$ 600 | | \$ 600 |
| Bank deposits | 4,546,968 | \$ 672,410 | 5,219,378 |
| Total cash and deposits | <u>4,547,568</u> | <u>672,410</u> | <u>5,219,978</u> |
| Medium term corporate notes | 23,798 | | 23,798 |
| Local Agency Investment Fund (LAIF) | 28,880,011 | 446,625 | 29,326,636 |
| Non-negotiable certificates of deposit | 1,987,280 | | 1,987,280 |
| Investments with fiscal agents: | | | |
| Money market mutual funds | | 203,831 | 203,831 |
| Local Agency Investment Fund (LAIF) | | 328,028 | 328,028 |
| Total investments | <u>30,891,089</u> | <u>978,484</u> | <u>31,869,573</u> |
| Total cash and investments | <u>\$ 35,438,657</u> | <u>\$ 1,650,894</u> | <u>\$ 37,089,551</u> |

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

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

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

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

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

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

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the District's investments by maturity at June 30, 2019:

| Investment Type | Total | 12 Months or Less | 13 to 24 Months | 25 to 60 Months |
|--|---------------|-------------------|-----------------|-----------------|
| Medium term corporate notes | \$ 23,798 | \$ 23,798 | | |
| LAIF | 29,326,636 | 29,326,636 | | |
| Non-negotiable certificates of deposit | 1,987,280 | | | \$ 1,987,280 |
| Investments with fiscal agent: | | | | |
| Money market mutual funds | 203,831 | 203,831 | | |
| LAIF | 328,028 | 328,028 | | |
| Total Investments | \$ 31,869,573 | \$ 29,882,293 | \$ - | \$ 1,987,280 |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating 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, 2019.

| Investment Type | Total | Minimum Rating | Ratings as of Year End Not Rated |
|--|---------------|----------------|-------------------------------------|
| Medium term corporate notes ⁽¹⁾ | \$ 23,798 | A | \$ 23,798 |
| LAIF | 29,326,636 | N/A | 29,326,636 |
| Non-negotiable certificates of deposit | 1,987,280 | N/A | 1,987,280 |
| Investments with fiscal agent: | | | |
| Money market mutual funds | 203,831 | N/A | 203,831 |
| LAIF | 328,028 | N/A | 328,028 |
| Total Investments | \$ 31,869,573 | | \$ 31,869,573 |

⁽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. The District’s non-negotiable certificate of deposit with Wells Fargo Bank NA in the amount of \$1,987,280 exceeded 5% of total investments.

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

At June 30, 2019, the carrying amount of the District’s deposits, including Agency Fund deposits and certificates of deposit, was \$7,206,658 and the balance in financial institutions was \$7,280,496. Of the balance in financial institutions, \$500,000 was covered by federal depository insurance and the remaining amount of \$6,780,496 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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2019, the District carried the Lehman securities at the estimated recoverable fair value provided by the investment broker of \$23,798. The amount ultimately recovered may differ from this estimate. The District recovered \$13,141 on the securities during the year-ended June 30, 2019.

California Local Agency Investment Fund (LAIF): LAIF is stated at fair value. LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The total fair value amount invested by all public agencies in LAIF is \$105,814,483,092, which is managed by the State Treasurer. Of that amount, 1.77 percent is invested in structured notes and asset-backed commercial paper. 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. The weighted average maturity of investments held by LAIF was 173 days at June 30, 2019.

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, 2019:

- Medium term corporate notes of \$23,798 are valued based on the estimated recoverable value based on information learned during the Lehman Brothers Holdings Inc. bankruptcy, which includes unobservable inputs (Level 3 inputs).

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

| | Balance at July 1, 2018 | Additions | Retirements | Transfer | Balance at June 30, 2019 |
|--|----------------------------|---------------------|--------------------|------------------|-----------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 13,389,343 | \$ 178,127 | | | \$ 13,567,470 |
| Construction in progress | 2,919,197 | 4,866,606 | | \$ (383,051) | 7,402,752 |
| Total capital assets, not being depreciated | <u>16,308,540</u> | <u>5,044,733</u> | | <u>(383,051)</u> | <u>20,970,222</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 17,732,474 | | | | 17,732,474 |
| Utility system - infrastructure | 161,220,852 | 330,876 | | 383,051 | 161,934,779 |
| Machinery and equipment | 17,541,965 | 345,021 | \$ (33,160) | | 17,853,826 |
| Total capital assets, being depreciated | <u>196,495,291</u> | <u>675,897</u> | <u>(33,160)</u> | <u>383,051</u> | <u>197,521,079</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (10,114,883) | (339,720) | | | (10,454,603) |
| Utility system - infrastructure | (79,072,940) | (3,225,534) | | | (82,298,474) |
| Machinery and equipment | (15,341,374) | (426,355) | 9,665 | | (15,758,064) |
| Total accumulated depreciation | <u>(104,529,197)</u> | <u>(3,991,609)</u> | <u>9,665</u> | | <u>(108,511,141)</u> |
| Total capital assets, being depreciated, net | <u>91,966,094</u> | <u>(3,315,712)</u> | <u>(23,495)</u> | <u>383,051</u> | <u>89,009,938</u> |
| Total capital assets, net | <u>\$ 108,274,634</u> | <u>\$ 1,729,021</u> | <u>\$ (23,495)</u> | <u>\$ -</u> | <u>\$ 109,980,160</u> |

NOTE D – LONG-TERM LIABILITIES

The activity of the District's long-term liabilities during the year ended June 30, 2019 was as follows:

| | Balance at July 1, 2018 | Additions | Retirements | Balance at June 30, 2019 | Current Portion |
|---|-------------------------------|---------------------|-----------------------|--------------------------------|---------------------|
| Water Fund: | | | | | |
| Umpqua Bank 2014 Water Revenue Loan | \$ 3,411,593 | | \$ (1,113,008) | \$ 2,298,585 | \$ 1,136,957 |
| U.S. Bureau of Reclamation Note - Hogan | 277,609 | | (40,326) | 237,283 | 40,327 |
| Umpqua Bank 2012 Pension Loan | 172,133 | | (172,133) | | |
| Umpqua Bank Series 2019 Taxable Revenue Refunding Loan | | \$ 3,795,550 | | 3,795,550 | 179,560 |
| Total Water Fund loans and notes | <u>3,861,335</u> | <u>3,795,550</u> | <u>(1,325,467)</u> | <u>6,331,418</u> | <u>1,356,844</u> |
| Compensated absences | <u>558,367</u> | <u>525,992</u> | <u>(558,367)</u> | <u>525,992</u> | <u>447,093</u> |
| Total Water Fund liabilities | <u>4,419,702</u> | <u>4,321,542</u> | <u>(1,883,834)</u> | <u>6,857,410</u> | <u>1,803,937</u> |
| Sewer Fund: | | | | | |
| Umpqua Bank 2014 Sewer Revenue Loan | 1,147,374 | | (374,311) | 773,063 | 382,377 |
| U.S. Bureau of Reclamation Note - Hogan | 102,677 | | (14,915) | 87,762 | 14,915 |
| Umpqua Bank 2012 Pension Loan | 84,783 | | (84,783) | | |
| Umpqua Bank Series 2019 Taxable Revenue Refunding Loan | | 1,869,450 | | 1,869,450 | 88,440 |
| Total Sewer Fund loans and notes | <u>1,334,834</u> | <u>1,869,450</u> | <u>(474,009)</u> | <u>2,730,275</u> | <u>485,732</u> |
| Compensated absences | <u>341,319</u> | <u>264,245</u> | <u>(341,319)</u> | <u>264,245</u> | <u>224,608</u> |
| Total Sewer Fund liabilities | <u>1,676,153</u> | <u>2,133,695</u> | <u>(815,328)</u> | <u>2,994,520</u> | <u>710,340</u> |
| Public Financing Authority Fund: | | | | | |
| Series 2016 Water Enterprise Revenue Bonds | <u>2,579,300</u> | | <u>(43,700)</u> | <u>2,535,600</u> | <u>44,700</u> |
| Total long-term liabilities | <u>\$ 8,675,155</u> | <u>\$ 6,455,237</u> | <u>\$ (2,742,862)</u> | <u>\$ 12,387,530</u> | <u>\$ 2,558,977</u> |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE D – LONG-TERM LIABILITIES (Continued)

Description of Water Fund Loans and Notes – Direct Borrowing:

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. The loan agreement defines events of default as 1) failure to pay any principal and interest payment when due; 2) failure to observe and perform a covenant for a period of 30 days after written notice is provided by the Bank; 3) default on any parity obligation; 4) bankruptcy; 5) material misrepresentation made in the execution of the loan; 6) an event causing the loan to cease to be a legal, valid and binding obligation of the District; and 7) dissolution or termination of the District. The Loan is subject to an acceleration clause upon default of the District causing the principal and accrued interest to be immediately due and payable. The Bank also has the right under the agreement to apply to and obtain from a court a decree or order necessary to require the District to charge and collect rates for water services sufficient to meet requirements of the loan agreement. Semi-annual principal and interest payments ranging from \$587,005 to \$593,385 are due each September 1 and March 1 at 2.12% through March 1, 2021. In the event of default, the interest rate increases 3%.

Description of Sewer Fund Loans and Notes – Direct Borrowing:

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. The events of default and remedies for default are identical to those disclosed for the Umpqua Bank 2014 Water Revenue Loan above except the Bank has the right to require the District to charge and collect rates for wastewater services sufficient to meet requirements of the loan agreement. Semi-annual principal and interest payments ranging from \$197,428 to \$199,582 are due each September 1 and March 1 at 2.12% through March 1, 2021. In the event of default, the interest rate increases 3%.

Description of Shared Water Fund and Sewer Fund Loans and Notes – Direct Borrowings:

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%. The agreement contains a provision requiring a penalty of 0.5% per month on delinquent payments over 30 days past-due. Annual principal payments range from \$48,837 to \$55,242 and annual interest payments range from \$2,198 to \$14,687 through June 10, 2025. The remaining balance on the contract at June 30, 2019 was \$325,045.

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.

Umpqua Bank 2012 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 was paid off in April 2019.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE D – LONG-TERM LIABILITIES (Continued)

Umpqua Bank Series 2019 Taxable Revenue Refunding Loan Obligations (CalPERS Refunding Project): On February 1, 2019, the District obtained a \$5,665,000 loan from Umpqua Bank in order to reduce and refinance the District’s Water and Sewer Fund unfunded accrued actuarial pension liability (UAL) in the District’s defined benefit pension plan administered by the California State Public Employees’ Retirement System (CalPERS). \$5,544,652 was deposited directly with CalPERS under the loan agreement, with the remaining amount funding issuance costs. The District’s future UAL payments to CalPERS will be reduced due to this deposit. 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 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. The events of default and remedies for default are identical to those disclosed for the Umpqua Bank 2014 Water Revenue Loan above except the Bank has the right to require the District to charge and collect rates for both water and wastewater services sufficient to meet requirements of the loan agreement. Semi-annual principal and interest payments ranging from \$176,591 to \$259,240 are due beginning on September 1, 2019 through March 1, 2036. The interest rate on the loan is 3.32%. In the event of default, the interest rate increases 3%.

Description of Public Financing Authority Fund Debt – Direct Placement:

U.S. Department of Agriculture Bonds: On June 16, 2016, the Calaveras County Water District Public Financing Authority issued Series 2016 Water Enterprise Revenue Bonds with a borrowing limit of \$2,622,000 to assist in the funding of the Ebbetts Pass Reach 3A Pipeline Replacement Project. The Bonds will be paid solely from installment sale payments made from the District’s net water system revenues to purchase the project assets. The bonds will be paid annually each September 1 in principal amounts ranging from \$44,700 to \$99,500 and semi-annual interest payments ranging from \$1,119 to \$28,526 at 2.25% through September 1, 2055.

The annual requirements to amortize the outstanding loans and notes payable at June 30, 2019 were as follows:

| Years Ending June 30 | Water Fund | | | Sewer Fund | | | Public Financing Authority Fund | | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | \$ 1,356,844 | \$ 180,410 | \$ 1,537,254 | \$ 485,732 | \$ 80,782 | \$ 566,514 | \$ 44,700 | \$ 56,548 | \$ 101,248 |
| 2021 | 1,421,715 | 145,879 | 1,567,594 | 513,841 | 67,839 | 581,680 | 45,700 | 55,531 | 101,231 |
| 2022 | 276,837 | 117,857 | 394,694 | 131,405 | 57,184 | 188,589 | 46,700 | 54,492 | 101,192 |
| 2023 | 265,447 | 108,279 | 373,726 | 125,795 | 52,689 | 178,484 | 47,700 | 53,430 | 101,130 |
| 2024 | 266,787 | 98,991 | 365,778 | 126,455 | 48,337 | 174,792 | 48,800 | 52,344 | 101,144 |
| 2025-2029 | 1,163,930 | 366,784 | 1,530,714 | 568,905 | 180,458 | 749,363 | 260,900 | 244,558 | 505,458 |
| 2030-2034 | 1,099,470 | 179,598 | 1,279,068 | 541,530 | 88,459 | 629,989 | 291,700 | 213,508 | 505,208 |
| 2035-2039 | 480,388 | 20,420 | 500,808 | 236,612 | 10,058 | 246,670 | 325,900 | 178,748 | 504,648 |
| 2040-2044 | | | | | | | 364,400 | 140,013 | 504,413 |
| 2045-2049 | | | | | | | 407,200 | 96,649 | 503,849 |
| 2050-2054 | | | | | | | 455,100 | 48,194 | 503,294 |
| 2055-2059 | | | | | | | 196,800 | 4,453 | 201,253 |
| | <u>\$ 6,331,418</u> | <u>\$ 1,218,218</u> | <u>\$ 7,549,636</u> | <u>\$ 2,730,275</u> | <u>\$ 585,806</u> | <u>\$ 3,316,081</u> | <u>\$ 2,535,600</u> | <u>\$ 1,198,468</u> | <u>\$ 3,734,068</u> |

Description of Shared Water Fund and Sewer Fund Capital Lease:

Enterprise Fleet Management Lease Program: On June 7, 2019, the District entered into a multi-year capital lease program for vehicle replacement with Enterprise Fleet Management. Each year, vehicles in the fleet are evaluated and proposed additions and retirements are taken to the Board for approval. The District makes monthly rental payments according to the lease schedule and the lease agreement. The term of the lease schedule begins on the date each vehicle is delivered to the District. The District agrees to pay within 30 days after the end of the term for each vehicle an additional rent amount equal to the excess, if any, of the book value of a leased vehicle greater than the wholesale value of the vehicle. As of June 30, 2019, the District has not leased any vehicles. In the event of default, the interest rate will increase to 18% or the highest rate permitted by law.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE D – LONG-TERM LIABILITIES (Continued)

Pledged Revenues: The District has pledged future Water Fund and Sewer (wastewater) Fund revenues, net of specified operating expenses, to repay each of its Water Fund, Sewer Fund and Public Financing Authority loans and bonds as described above. Proceeds from the loans and bonds were used to fund certain water and sewer improvements, to purchase capital assets or refund certain prior debt issuances as described above. The loans and bonds are payable through September 1, 2055. Annual principal and interest on the loans and bonds are expected to be 75% or less of net revenues as required by the loan and bond covenants. Total principal and interest remaining to be paid on the loans and bonds are reported in the “Total” column for the Water Fund and Sewer Fund on the table above. Total principal and interest paid on all debt payable from net revenues in the Water and Sewer Funds was \$1,932,425 and \$647,908, respectively, and total water and sewer system net revenues were \$5,292,517 and \$2,571,201 for the year ended June 30, 2019. At June 30, 2019, the District’s total water and sewer system net revenues were 274% and 397% of debt service payments, respectively, as described in the debt service coverage ratio calculation in the Other Supplementary Information section of the financial statements.

NOTE E – INTERNAL LOANS

On January 11, 2012, the Board of Directors approved a building 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 the total loans outstanding of \$1,570,731 from the Sewer Fund to the Water Fund at June 30, 2019. The internal loan will be repaid with operating funds 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. As part of the fiscal year 2017-18 budget adoption (June 28, 2017), the Board approved delaying the start of the principal pay down one year (to fiscal year 2018-19), which extends the “interest only” period to six years. Thus, the revised term will be eleven years, including six years with interest only payments and five years with principal and interest payments.

On June 13, 2012, the Board of Directors approved a loan from special project funds in the District’s interest reserve funds to cover debt service payments for the Jenny Lind water expansion funds loan. The outstanding loan balance as of June 30, 2019 was \$1,522,736. This resulted in an internal loan of \$411,139 from the Sewer Fund to the Water Fund at June 30, 2019. The Jenny Lind water expansion funds debt service obligation ended September 2017. The internal loan is non-interest bearing and will be repaid from new water connection fees from the Jenny Lind service area as available.

On August 8, 2018, the Board of Directors approved a loan from the Water Fund to the Sewer Fund to fund a cash deficit of \$1,126,267 at June 30, 2018. The internal loan will be repaid by the Sewer Fund each June 30 from June 30, 2019 to June 30, 2028 in amounts of \$125,383, including interest at 2% per year. The outstanding balance at June 30, 2019 was \$1,023,409.

NOTE F – INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2019 were as follows:

| <u>Fund Receiving Transfer</u> | <u>Fund Making Transfer</u> | <u>Amount</u> |
|--------------------------------|---------------------------------|-------------------|
| Water Fund | Sewer Fund | \$ 18,957 |
| Water Fund | Public Financing Authority Fund | <u>101,243</u> |
| Total interfund transfers | | <u>\$ 120,200</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, 2019

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. The County of Calaveras collects special assessments from the property owners in these special assessment districts. The special assessments collected are forwarded to the District, which directs payment to the bondholders through the designated paying agent. The District is not obligated in any manner in the event of default of this debt, which is not included in the District's financial statements. The outstanding principal amounts of these special assessment bonds at June 30, 2019, were as follows:

| District | Amount |
|-----------------------------|---------------------|
| Westpoint Acres #3A | \$ 9,000 |
| Arnold Sewer #9S4 A/B | 120,000 |
| Saddle Creek Refinance 2001 | 1,045,000 |
| DaLee/Cassidy | 750,000 |
| Fly-In Acres | 1,760,000 |
| Total | <u>\$ 3,684,000</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 two delinquent property owners. The two properties are in foreclosure and have had summary judgements filed against them. At this time the value of the properties (both unimproved) are significantly less than the lien amounts.

NOTE H – NET POSITION

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

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

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

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE H – NET POSITION (Continued)

Designations of unrestricted net position consisted of the following designations limited to the amount of unrestricted net position available to designate in each fund and the amounts as approved by the Board of Directors at June 30, 2019:

| | 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 | | | | \$ 2,920,000 | \$ 1,080,000 | |
| Water Rights Reserve | | | | 3,000,000 | | |
| CIP Cash Flow Reserve | \$ 1,167,467 | | | 1,241,000 | 459,000 | |
| Special Projects Reserve | 1,086,639 | | | 1,086,639 | 401,907 | |
| Total designated | 2,254,106 | | | | | |
| Undesignated | | \$ (4,107,567) | \$ (2,554,514) | \$ 8,247,639 | \$ 1,940,907 | \$ - |
| Total unrestricted net position | \$ 2,254,106 | \$ (4,107,567) | \$ (2,554,514) | | | |

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
- PEPRM 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 PEPRM 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, 2019 are summarized as follows:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE I – PENSION PLAN (Continued)

| | Miscellaneous Plan First Tier (Prior to August 1, 2012) | Miscellaneous Plan Second Tier (August 1, 2012 to December 31, 2012) | PEPRA Miscellaneous Plan (On or after January 1, 2013) |
|---|--|---|--|
| Hire date | | | |
| Benefit formula (at full retirement) | 2.7% @ 55 | 2.0% @ 60 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.00-2.70% | 1.092%-2.418% | 1.0% to 2.5% |
| Final average compensation period | One year | Three years | Three years |
| Required employee contribution rates | 7.952% | 6.912% | 6.250% |
| Required employer contribution rates | 12.212% | 7.634% | 6.842% |

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

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2019 the employer contributions for the Plan (all rate plans combined) were \$6,676,136, including the contribution for the employer unfunded accrued liability and a contribution made from the proceeds of the 2019 pension loan described in Note D of \$5,544,562.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2019 the District reported a net pension liability for its proportionate share of the net pension liability of the Plan (all rate plans combined) of \$10,053,891.

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, 2019 is measured as of June 30, 2018, 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, 2017 rolled forward to June 30, 2018 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, 2019 was as follows:

| | |
|------------------------------|----------|
| Proportion - June 30, 2018 | 0.25981% |
| Proportion - June 30, 2019 | 0.26677% |
| Change - Increase (Decrease) | 0.00696% |

For the year ended June 30, 2019 the District recognized pension expense of \$1,608,975. At June 30, the District reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE I – PENSION PLAN (Continued)

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date | \$ 6,676,136 | |
| Differences between actual and expected experience | 385,750 | \$ (131,268) |
| Changes in assumptions | 1,146,172 | (280,905) |
| Differences between the employer's contributions and the employer's proportionate share of contributions | | (205,019) |
| Change in employer's proportion | 160,173 | (5,545) |
| Net differences between projected and actual earnings on plan investments | <u>49,704</u> | |
| Total | <u>\$ 8,417,935</u> | <u>\$ (622,737)</u> |

The amount in the table above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. 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, 2019:

| <u>Year Ended June 30</u> | |
|-------------------------------|---------------------|
| 2020 | \$ 986,438 |
| 2021 | 558,761 |
| 2022 | (335,707) |
| 2023 | <u>(90,430)</u> |
| Total | <u>\$ 1,119,062</u> |

Actuarial Assumptions: The total pension liabilities in the June 30, 2018 actuarial valuations for each of the rate plans were determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Payroll Growth | 2.75% |
| Projected Salary Increase | Varies by Entry Age and Service (1) |
| Investment Rate of Return | 7.150% |
| Mortality | Derived using CalPERS Membership Data for all Funds (2) |

(1) Varying by service, including inflation.

(2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE I – PENSION PLAN (Continued)

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for fiscal years 1997 to 2015, 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.

Change of Assumptions: The demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions in December 2017. There were no changes in the discount rate.

Discount Rate: The discount rates used by CalPERS to measure the total pension liability was 7.15% in the June 30, 2018 accounting valuation. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees’ Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of returns (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 staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated per each PERF C 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 equal 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, 2018. 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 | 50.0% | 4.80% | 5.98% |
| Global Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation Sensitive | 0.0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real Estate | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0.0% | (0.92)% |
| 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, 2019

NOTE I – PENSION PLAN (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 (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
|-----------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability | <u>\$ 15,587,656</u> | <u>\$ 10,053,891</u> | <u>\$ 5,485,858</u> |

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

Payable to the Pension Plan: At June 30, 2019 the District had no outstanding contributions payable to the Plan.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The District’s other postemployment benefits (OPEB) plan (the Plan) is an agent-multiple employer defined benefit healthcare plan administered by Public Agency Retirement Services (PARS). PARS maintains the Plan’s assets in a trust fund that complies with Section 115 of the Internal Revenue Code and provides administration of benefits and investment services. The Plan assets are invested by PARS together with assets of other participating employers. The Plan provides medical, dental and vision insurance benefits to eligible retirees and surviving spouses. Employees who retire directly from the District and their dependents are eligible for the District paid benefits if they meet the following criteria under Board Resolution 2007-106:

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 are not eligible to receive any post-employment dental or vision coverage.

The District’s Board of Directors establishes and amends benefit provisions. The Plan itself and PARS do not issue separate publicly available financial statements.

Employees Covered by Benefit Terms: At June 30, 2018, the following employees were covered by the benefit terms:

| <u>Category</u> | <u>Count</u> |
|--|--------------|
| Active employees | 65 |
| Inactive employees or beneficiaries currently receiving benefit payments | 47 |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Contributions: The District’s Board of Directors has the authority to establish and amend the contribution requirements of the District and employees under the authority granted to it under the California Water Code. The District has a policy of contributing to the PARS trust based on the actuarially determined contribution (ADC) in addition to paying premiums due on a pay-as-you-go basis. Employees are not required to contribute to the Plan. During the fiscal year ended June 30, 2019, the District’s cash contributions to the trust were \$851,958 and the benefit payments were \$570,587, resulting in total payments of \$1,422,545.

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 percentage is based upon each participant’s years of service according to the following scale:

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

Net OPEB Liability: The District’s net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Valuation date | June 30, 2017 |
| Measurement date | June 30, 2018 |
| Actuarial cost method | Entry-age normal cost method |
| Actuarial assumptions: | |
| Discount rate | 7.00% |
| Inflation | 2.26% |
| Aggregate salary increases | 3.25% |
| Investment rate of return | 7.00% |
| Healthcare cost trend rates | 8.40% and 5.00% in the first year for pre-65 and post-65, respectively, trending down to 5.00% until 2033 and thereafter. |
| Mortality rates | Derived using CalPERS membership data |
| Participation rate | 100% |

Mortality was based on the 2014 CalPERS Mortality study and morbidity factors were based on the 2013 CalPERS study. It was assumed 100% of eligible participants would participate in the Plan and 80% of future retirees would cover spouses at retirement. Retirement rates used were the rates in the most recent CalPERS Miscellaneous 2% at 55 Risk Pool for active employees hired before January 1, 2013 and the 2% at 62 Risk Pool for active employees hired on or after January 1, 2013.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) was used and developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of the measurement date for each major asset class are summarized in the following table:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

| Investment Class | Target Allocation | Long-term Expected Real Rate of Return |
|------------------|-------------------|--|
| Equity | 48.25% | 5.65% |
| Fixed income | 45.00% | 1.39% |
| REITs | 1.75% | 5.06% |
| Cash | 5.00% | 0.00% |
| Total | 100.00% | |

The table above shows the target asset allocation in the PARS Moderate investment portfolio.

Discount Rate: The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that District contributions will continue based upon the current funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability:

| | Increase (Decrease) | | |
|--|----------------------|-----------------------------|----------------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability/(Asset) |
| Balance at June 30, 2018 | \$ 13,077,306 | \$ 6,414,366 | \$ 6,662,940 |
| Changes for the year: | | | |
| Service cost | 356,032 | | 356,032 |
| Interest on the total OPEB liability | 921,936 | | 921,936 |
| Differences between expected and actual experience | (13,392) | | (13,392) |
| Contribution - employer | | 1,228,844 | (1,228,844) |
| Net investment income | | 405,162 | (405,162) |
| Benefit payments | (534,668) | (534,668) | |
| Administrative expense | | (17,301) | 17,301 |
| Net changes | 729,908 | 1,082,037 | (352,129) |
| Balance at June 30, 2019 | \$ 13,807,214 | \$ 7,496,403 | \$ 6,310,811 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates: The following presents the net OPEB liability of the District, as well as what the District's net OPEB 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 discount rate:

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|--|----------------------|-----------------------------------|----------------------|
| | Net OPEB liability | \$ 8,259,206 | \$ 6,310,811 |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

| | 1% Decrease 7.40% decreasing to 4.00% | Current Healthcare Cost Trend Rates 8.40% decreasing to 5.00% | 1% Increase 9.40 decreasing to 6.00% |
|--------------------|---|--|--|
| Net OPEB liability | \$ 4,703,425 | \$ 6,310,811 | \$ 8,125,809 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources: For the year ended June 30, 2019, the District recognized OPEB expense of \$799,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| OPEB contributions subsequent to measurement date | \$ 1,422,545 | |
| Differences between actual and expected experience | | \$ 11,325 |
| Net differences between projected and actual earnings on OPEB plan investments | | 52,292 |
| Total | <u>\$ 1,422,545</u> | <u>\$ 63,617</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30 | |
|-----------------------|--------------------|
| 2020 | \$ (23,973) |
| 2021 | (23,973) |
| 2022 | (23,973) |
| 2023 | 11,359 |
| 2024 | (2,067) |
| Thereafter | (990) |
| | <u>\$ (63,617)</u> |

There were no amounts payable to the Plan at year-end.

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, 2019

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, 2019:

| Coverage | ACWA/JPIA | Commercial Insurance | Deductible |
|---|--------------|---|-----------------|
| General liability | \$ 5,000,000 | \$ 55,000,000 | None |
| Auto liability | 5,000,000 | 55,000,000 | \$ 1,000 |
| Public officials liability | 5,000,000 | 55,000,000 | None |
| Property damage, including buildings, personal property, fixed equipment, mobile equipment and other | 100,000 | 500,000,000 | 1,000 to 50,000 |
| Crime | 100,000 | 1,000,000 | 1,000 |
| Workers compensation | 2,000,000 | Statutory | None |
| Employers liability | 2,000,000 | Statutory | None |
| Cyber liability | | 3,000,000/5,000,000 occurrence/aggregate | 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, 2019:

| | |
|---|---------------------|
| Reach 1 Water Line Replacement | \$ 6,229,499 |
| Jenny Lind Pre-Treatment Facility | 352,794 |
| Copper Cove Lift Station Rehabilitation | 164,083 |
| Copper Cove Force Main Rehabilitation | <u>164,083</u> |
| Total | <u>\$ 6,910,459</u> |

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

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

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

Contingent Revenue from Settlement Agreement: In June 2019, the District accepted a mediator’s proposal of \$3 million from Pacific Gas & Electric Company (PG&E) to resolve the District’s claims resulting from the 2015 Butte Fire. The proposed settlement is subject to confirmation by the Bankruptcy Court in a planned reorganization to be filed by PG&E under Chapter 11 of the Bankruptcy Code. Because the amount is contingent upon a future event, the District will not recognize revenue for the amount until the contingency is resolved as required by paragraph 112 of GASB Statement No. 62. If the settlement is approved in PG&E’s bankruptcy proceedings, the District intends to use a large portion of the amount to reimburse expenses the District incurred as a result of the Butte Fire, namely the construction and operation of the Jenny Lind Water Treatment Plant Pretreatment Facility.

REQUIRED SUPPLEMENTARY INFORMATION

CALAVERAS COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

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

| | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---------------|---------------|---------------|---------------|---------------|
| Proportion of the Net Pension Liability | 0.26677% | 0.25981% | 0.25186% | 0.25186% | 0.21557% |
| Proportionate Share of the Net Pension Liability | \$ 10,053,891 | \$ 10,242,016 | \$ 8,797,338 | \$ 6,909,619 | \$ 5,327,739 |
| Covered Payroll - Plan Measurement Period | \$ 5,379,180 | \$ 5,526,427 | \$ 5,155,786 | \$ 4,776,189 | \$ 4,868,194 |
| Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll | 186.90% | 185.33% | 170.63% | 144.67% | 109.44% |
| Plan Fiduciary Net Position | \$ 30,854,793 | \$ 28,867,804 | \$ 25,711,678 | \$ 25,880,156 | \$ 26,064,984 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 89.41% | 83.65% | 74.51% | 78.93% | 83.03% |

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

| | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|--|-----------------------|---------------|---------------|---------------|---------------|
| Contractually Required Contribution (Actuarially Determined) | \$ 1,131,574 | \$ 1,012,621 | \$ 946,214 | \$ 535,436 | \$ 725,590 |
| Contributions in Relation to the Actuarially Determined Contributions | 6,676,136 | 1,012,621 | 946,214 | 535,436 | 725,590 |
| Contribution Deficiency (Excess) | <u>\$ (5,544,562)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll - Employer Fiscal Year | \$ 5,373,055 | \$ 5,379,180 | \$ 5,256,427 | \$ 5,155,786 | \$ 4,776,189 |
| Contributions as a Percentage of Covered Payroll | 124.25% | 18.82% | 18.00% | 10.39% | 15.19% |
| Notes to Schedule: | | | | | |
| Valuation date: | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Measurement date: | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 |
| Date contributions were calculated: | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 | June 30, 2012 |
| Investment rate of return and discount rate used to compute contribution rates | 7.375% | 7.500% | 7.50% | 7.50% | 7.50% |

Benefit Changes: There were no changes to benefit terms.

Contributions: During 2019, the District contributed the proceeds of the Umpqua Bank Series 2019 Taxable Revenue Refunding Loan in the amount of \$5,544,562.

Methods and Assumptions Used to Determine Contribution Rates

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

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

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

CALAVERAS COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS (UNAUDITED)

| | June 30, 2019 | June 30, 2018 |
|---|-------------------|-------------------|
| Total OPEB liability: | | |
| Service cost | \$ 356,032 | \$ 339,078 |
| Interest | 921,936 | 873,640 |
| Differences between expected and actual experience | (13,392) | |
| Benefit payments | (534,668) | (544,601) |
| Net change in total OPEB liability | 729,908 | 668,117 |
| Total OPEB liability - beginning | 13,077,306 | 12,409,189 |
| Total OPEB liability - ending (a) | \$ 13,807,214 | \$ 13,077,306 |
| Plan fiduciary net position: | | |
| Contributions - employer | \$ 1,228,844 | \$ 1,156,609 |
| Net investment income | 405,162 | 564,907 |
| Benefit payments | (534,668) | (544,601) |
| Administrative expenses | (17,301) | (15,813) |
| Net change in plan fiduciary net position | 1,082,037 | 1,161,102 |
| Plan fiduciary net position - beginning | 6,414,366 | 5,253,264 |
| Plan fiduciary net position - ending (b) | \$ 7,496,403 | \$ 6,414,366 |
| Net OPEB liability - ending (a)-(b) | \$ 6,310,811 | \$ 6,662,940 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 54.29% | 49.05% |
| Covered-employee payroll - measurement period | \$ 5,379,180 | \$ 5,256,427 |
| Net OPEB liability as percentage of covered-employee payroll | 117.32% | 126.76% |
| Notes to schedule: | | |
| Valuation date | June 30, 2017 | June 30, 2017 |
| Measurement period - fiscal year ended | June 30, 2018 | June 30, 2017 |

Benefit changes. None.

Changes in assumptions. None

Omitted years: GASB Statement No. 75 was implemented during the year ended June 30, 2018. No information was available prior to this date. Information will be added prospectively as it becomes available until 10 years are reported.

CALAVERAS COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

SCHEDULE OF CONTRIBUTIONS TO THE OPEB PLAN (UNAUDITED)

| | June 30, 2019 | June 30, 2018 |
|---|---------------------|---------------------|
| Actuarially determined contribution - employer fiscal year | \$ 851,958 | \$ 746,759 |
| Contributions in relation to the actuarially determined contributions | <u>(1,422,545)</u> | <u>(1,156,609)</u> |
| Contribution deficiency (excess) | <u>\$ (570,587)</u> | <u>\$ (409,850)</u> |
| | | |
| Covered-employee payroll - employer fiscal year | \$ 5,373,055 | \$ 5,379,180 |
| | | |
| Contributions as a percentage of covered-employee payroll | 26.48% | 21.50% |

Notes to Schedule:

| | | |
|--|--|---------------|
| Valuation date | June 30, 2017 | June 30, 2017 |
| Measurement period - fiscal year ended | June 30, 2018 | June 30, 2017 |
| Actuarial cost method | Entry age normal cost method | |
| Amortization method | Straight-line amortization. 5 years for investment gains and losses | |
| Discount rate | 7.00% | |
| Inflation | 2.26% | |
| Aggregate salary increases | 3.25% | |
| Investment rate of return | 7.00% | |
| Retirement age | CalPERS Miscellaneous Risk Pool age | |
| Mortality | CalPERS 2014 study | |
| Healthcare cost trend rates | 8.40% and 5.00% in the first year for pre-65 and post-65, respectively, trending down to 5.00% in 2033 and thereafter. | |

An actuarially determined contribution rate was not calculated. The required contributions reported represent the actuarially determined contributions.

Omitted years: GASB Statement No. 75 was implemented during the year ended June 30, 2018. No information was available prior to this date. Information will be added prospectively as it becomes available until 10 years are reported.

OTHER SUPPLEMENTARY INFORMATION

CALAVERAS COUNTY WATER DISTRICT
 OTHER SUPPLEMENTARY INFORMATION
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 ASSESSMENT DISTRICT AGENCY FUND

June 30, 2019
 (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 | \$ 26,810 | \$ 5 | \$ 73,117 | \$ 102,162 | \$ 1 |
| Interest receivable | 90 | | 246 | 344 | |
| Due from County of Calaveras | 236 | | 1,435 | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents with fiscal agents | | | | 6 | |
| TOTAL ASSETS | \$ 27,136 | \$ 5 | \$ 74,798 | \$ 102,512 | \$ 1 |
| LIABILITIES | | | | | |
| Notes payable | | | | | \$ 10,742 |
| Due to other governments | | \$ 5 | | | |
| Due to (from) bond holders | \$ 27,136 | | \$ 74,798 | \$ 102,512 | (10,741) |
| TOTAL LIABILITIES | \$ 27,136 | \$ 5 | \$ 74,798 | \$ 102,512 | \$ 1 |

| Saddle Creek Fund | DaLee/ Cassidy Fund | Fly in Acres Fund | Wallace Fund | Totals for Comparative Purposes Only | |
|-------------------------|---------------------------|-------------------------|-------------------|---|---------------------|
| | | | | 2019 | 2018 |
| \$ 480,625 | \$ 71,104 | \$ 104,686 | \$ 260,526 | \$ 1,119,036 | \$ 1,141,438 |
| 1,619 | 240 | 353 | 878 | 3,770 | 2,956 |
| 9,988 | 3,559 | 6,658 | 2,352 | 24,228 | 21,999 |
| <u>328,368</u> | <u>69,752</u> | <u>133,732</u> | | <u>531,858</u> | <u>527,289</u> |
| <u>\$ 820,600</u> | <u>\$ 144,655</u> | <u>\$ 245,429</u> | <u>\$ 263,756</u> | <u>\$ 1,678,892</u> | <u>\$ 1,693,682</u> |
| | | | | \$ 10,742 | \$ 10,742 |
| | | | \$ 263,756 | 263,761 | 327,322 |
| <u>\$ 820,600</u> | <u>\$ 144,655</u> | <u>\$ 245,429</u> | | <u>1,404,389</u> | <u>1,355,618</u> |
| <u>\$ 820,600</u> | <u>\$ 144,655</u> | <u>\$ 245,429</u> | <u>\$ 263,756</u> | <u>\$ 1,678,892</u> | <u>\$ 1,693,682</u> |

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

For the Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| REVENUES | | |
| Water operating revenues | \$ 8,071,882 | \$ 7,934,981 |
| Property taxes | 2,519,303 | 2,289,765 |
| Investment income | 583,502 | 263,827 |
| Expansion Fees | 510,219 | 430,858 |
| Power sales | 586,131 | 552,143 |
| Capital R&R fees | 3,264,713 | 3,272,222 |
| Other income | 1,018,897 | 183,699 |
| TOTAL REVENUES | 16,554,647 | 14,927,495 |
| EXPENSES | | |
| Total Operating Expenses | 13,891,740 | 13,375,253 |
| <i>Less: Depreciation</i> | (2,749,810) | (2,656,687) |
| Transfers (in), excluding noncash transfers | | (55,191) |
| Transfers out | 120,200 | 190,576 |
| TOTAL EXPENSES | 11,262,130 | 10,853,951 |
| NET REVENUES | 5,292,517 | 4,073,544 |
| Debt Service Payments * | 1,281,559 | 1,280,923 |
| Debt Coverage Ratio - Actual | 4.13 | 3.18 |
| Required Ratio - 2014 Water Revenue Loans and 2016 Water Enterprise Revenue Bonds | 1.25 | 1.25 |
| <i>Annual Debt Service Payments</i> | | |
| <i>* Includes Umpqua Bank (Series 2014 Water Revenue Loan) and USDA (Series 2016 Water Enterprise Revenue Bonds).</i> | | |
| NET REVENUES | \$ 5,292,517 | \$ 4,073,544 |
| Debt Service Payments (ALL)** | 1,932,425 | 1,598,316 |
| Debt Coverage Ratio - Actual | 2.74 | 2.55 |
| Required Ratio - 2014 Water Revenue Loans, 2016 Water Enterprise Revenue Bonds and 2019 Taxable Revenue Refunding Loan | 1.25 | 1.25 |

** Includes all debt payments.

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

For the Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| REVENUES | | |
| Sewer operating revenues | \$ 4,580,167 | \$ 4,347,882 |
| Property taxes | 656,297 | 594,243 |
| Investment income | 240,259 | 126,926 |
| Expansion Fees | 498,226 | 136,809 |
| Power sales | 216,788 | 204,217 |
| Capital R&R fees | 1,181,826 | 1,177,119 |
| Other income | 316,878 | 6,467 |
| TOTAL REVENUES | 7,690,441 | 6,593,663 |
| EXPENSES | | |
| Total Operating Expenses | 6,379,996 | 6,803,804 |
| <i>Less: Depreciation</i> | (1,241,799) | (1,210,174) |
| Transfers (in) | (18,957) | (90,057) |
| Transfers out | | 49,712 |
| TOTAL EXPENSES | 5,119,240 | 5,553,285 |
| NET REVENUES | 2,571,201 | 1,040,378 |
| Debt Service Payments * | 396,969 | 397,010 |
| Debt Coverage Ratio - Actual | 6.48 | 2.62 |
| Required Ratio - 2014 Sewer Revenue Loans | 1.25 | 1.25 |
| <i>Annual Debt Service Payments</i> | | |
| <i>* Includes payments on loan from Umpqua Bank (Series 2014 Sewer Revenue Loan).</i> | | |
| NET REVENUES | \$ 2,571,201 | \$ 1,040,378 |
| Debt Service Payments (ALL)** | 647,908 | 623,031 |
| Debt Coverage Ratio - Actual | 3.97 | 1.67 |
| Required Ratio - 2014 Sewer Revenue Loans and 2019 Taxable Revenue Refunding Loan | 1.25 | 1.25 |

** Includes all debt payments.

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