DEL PASO MANOR WATER DISTRICT

Audited Financial Statements

June 30, 2020 and 2019

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DEL PASO MANOR WATER DISTRICT

Audited Financial Statements

June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Del Paso Manor Water District
Sacramento, California

Report on Financial Statements

We have audited the accompanying financial statements of Del Paso Manor Water District (the District), which comprises the statements of net position as of June 30, 2020 and 2019, and the related statement of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note A to the financial statements, the District has not recorded developer-constructed infrastructure and GASB Statement No. 34 requires all infrastructure capital assets be recorded, which would increase the assets, net assets and expense of the District. The amount by which this departure would affect the assets, net assets and expense, of the District is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note F to the financial statements, the District's actuary applied Section 3.7.7(c)4 of Actuarial Standard of Practice No. 6, as revised, and determined age adjusted health insurance premiums are not necessary in the calculation of the District's net other postemployment benefits (OPEB) liability, and therefore, the Implicit Rate Subsidy is not applicable in calculating the total projection of benefits payments. Had the actuary included age adjusted health insurance premiums in the calculation of the net OPEB liability, the OPEB liability may have been significantly larger in the amount. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 and other required supplementary information on pages 32 to 34 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 the 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 financial statements, and other knowledge we obtained during our audit of the 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 supplemental information listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Richardson & Company, LLP

February 2, 2021

Del Paso Manor Water District
Management's Discussion and Analysis
June 30, 2020

This section of the Del Paso Manor Water District annual financial report presents an analysis of the District's financial performance during the fiscal year ending June 30, 2020. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2019 /2020

- At the end of the current year, total net position (total assets less total liabilities) of the District was a positive $2.2 million.

- During the year, the District's net position increased by approximately $200,000.

- The District's capital asset balance before depreciation was $7.3 million at the end of the year.

- The District has recognized a liability in the amount of $760 thousand for a net pension obligation due to Governmental Accounting Standards Board Statement (GASB) 68. The liability increased approximately $72 thousand from the prior year. See Note E of the basic financial statements.

- The District has recognized a liability in the amount of $168 thousand for post-employment benefits. The liability increased approximately $79 thousand from the prior year. See Note F of the basic financial statements.

- During the year, the District refinanced its 2018 installment loan into a new facility with a more favorable interest rate. The 2020 installment loan has a balance of $4.7 million at the end of the current year and an interest rate of 3.25%. It is believed that the District will realize over $449,000 in interest savings over the term of the 2020 installment loan compared to the interest expense over term of 2018 installment loan.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements, and Other Required Supplementary Information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal years ending June 30, 2020 and 2019. These statements provide information on the District's operations over the past two fiscal years, and can be used to determine whether the District has recovered all if it's actual and projected costs through user fees and other charges. The third component of the financial statements is the Statement of Cash Flows. These statements provide information on the District's cash receipts, cash payments and changes in cash resulting from operating, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the changes in the cash and cash equivalent balances.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of the District's financial condition and also indicate if the financial condition of the District has improved during the last fiscal year. The District's Net Position reflects the difference between assets and liabilities.

A summary of the District's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented below:

Condensed Statements of Net Position as of June 30, 2020 and 2019

	2020	2019	Increase/(Decrease) from 2019	2018
Current and other assets	$ 2,622,799	$ 2,098,012	$ 524,787	$ 1,462,585
Capital assets, net	4,991,627	5,178,908	(187,281)	5,265,946
Total assets	7,614,426	7,276,920	337,506	6,728,531
Deferred outflows of resources	536,840	553,939	(17,099)	612,867
Current liabilities	345,200	296,140	49,060	162,445
Long-term liabilities	5,467,828	5,384,724	83,104	5,569,214
Total liabilities	5,813,028	5,680,864	132,164	5,731,659
Deferred inflows of resources	88,863	82,116	6,747	53,163
Net investment in capital assets	297,627	456,908	(159,281)	438,946
Unrestricted net position	1,951,748	1,610,971	340,777	1,117,630
Total net position	$ 2,249,375	$ 2,067,879	$ 181,496	$ 1,556,576

Condensed Statements of Revenue, Expenses and Changes in Net Position
Fiscal Years Ended June 30, 2020 and 2019

	2020	2019	Increase/(Decrease) from 2019	2018
Operating revenues	$ 2,019,969	$ 2,090,168	$ (70,199)	$ 1,403,722
Non-operating revenues	24,122	21,356	2,766	9,693
Total revenues	2,044,091	2,111,524	(67,433)	1,413,415
Depreciation expense	211,550	212,081	(531)	214,429
Operating expenses	1,279,127	1,101,500	177,627	1,082,468
Total expenses	1,490,677	1,313,581	177,096	1,296,897
Non-operating expenses	(371,918)	(286,640)	85,278	(263,038)
Changes in net position	181,496	511,303	(329,807)	(146,520)
Beginning net position	2,067,879	1,556,576	511,303	1,703,096
Ending net position	$ 2,249,375	$ 2,067,879	$ 181,496	$ 1,556,576

CURRENT AND OTHER ASSETS

As of June 30, 2020, the District's current and other assets totaled $2.6 million which was an increase of $525,000 over the June 30, 2019 balances of approximately $2.1 million. Much of the increase in current assets was a result of increases in cash and investments of $544,000. Accounts receivable, interest receivable and the balances of prepaid expenses were comparable to the June 30, 2019 balances. The increase in cash and investments was the result of an improvement in net position, and a decrease in the use of cash for capital and related financing activities.

CAPITAL ASSETS

As of June 30, 2020, the District's investments in capital assets, including factoring accumulated depreciation, totaled $5.0 million which was a decrease of $188,000 over the capital asset balances at June 30, 2019 of $5.2 million.

During the year, the District invested approximately $24,000 into well 7 in order to extend its life; no additional capitalized costs were spent on the pumping and distribution system throughout 2020. Depreciation expense for the fiscal years 2020 and 2019 was $211,550 and $212,081, respectively.

CURRENT LIABILITIES

As of June 30, 2020 the District's current liabilities totaled approximately $345,000 which was an increase of $49,000 over the June 30, 2019 balances. Much of the increase in current liabilities was the result of higher accounts payable and interest payable balances, and higher balances in the current portion of notes payable.

LONG - TERM DEBT

As of June 30, 2020, the District had $4,694,000 in outstanding business-type debt as reported in the statement of net position and in the notes to the financial statements. During the year, the District refinanced its 2018 installment loan with a new note with a more favorable interest rate. A principal payment of $170,000 and an interest payment of $165,268 are scheduled to be made on this note in the 2021 fiscal year. Refer to Note D in the notes to the basic financial statements for additional discussion on the District's long term debt.

OPERATING REVENUES AND EXPENSES

Water sales and other revenues decreased from $2.1 million in 2019 to approximately $2.0 million in 2020. Water sales increased $52 thousand from 2019; however, other water sales decreased $122 thousand from 2019 as a result of more outside project activity occurring in 2019 compared to 2020. Operating expenses during 2020 increased $177,000 over the prior year. Much of the increase was from the maintenance of the transmission and distribution system and the affects of the increases in the pension and OPEB liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District approved a rate increase in May 2018 with an effective date of June 16, 2018 for monthly billed accounts, and July 1, 2018 for bi-monthly billed accounts. This rate increase will cover the District's increased costs associated with daily operation and maintenance of the District along with rebuilding the reserves. The Board set a reserve fund goal of six months of operations and maintenance expenses with the goal of meeting this target in three to four years. Del Paso Manor Water District's rates continue to remain competitive with other water purveyors in the region.

The aging infrastructure of the District still needs to be addressed. The Board is currently updating the 2009 Master Plan in an effort to redefine the issues and develop a plan for replacement of the aging facilities. Once this update is completed they will look at the economics and develop a plan to finance the next phases of projects.

In addition, the District is staying engaged with legislative and regulatory requirements that may require fees and/or costs to the District, thus potentially affecting consumer rates. To meet California's Sustainability Groundwater Management Act requirements, the District participates in the Sacramento Groundwater Authority which is one of the recognized Groundwater Sustainability Agencies in the North American Sub-basin.

The fiscal 2021 approved budget was comparable to the 2020 budget. Total expenditures for employee related, administration, and operational expenses are budgeted for $1,100,000 in 2021 compared to $1,106,450 for 2020.

ADDITIONAL FINANCIAL INFORMATION

The financial report is designed to provide the District's customers and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or to request additional financial information, please contact the Del Paso Manor Water District's General Manager at 1817 Maryal Drive, Suite 300, Sacramento, CA 95864.

DEL PASO MANOR WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2020 and 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,213,280	$ 694,273
Investments	1,182,555	1,157,911
Accounts receivable		
Current services	202,387	225,462
Accrued interest receivable	4,315	4,837
Prepaid expenses	20,262	15,529
Total Current Assets	2,622,799	2,098,012
Capital Assets:		
Nondepreciable	91,439	67,170
Depreciable, net of accumulated depreciation	4,900,188	5,111,738
Total Capital Assets, Net	4,991,627	5,178,908
TOTAL ASSETS	7,614,426	7,276,920
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	307,902	332,924
Pensions	175,866	194,702
Other postemployment benefits (OPEB)	53,072	26,313
TOTAL DEFERRED OUTFLOWS	536,840	553,939
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 8,151,266	$ 7,830,859

Continued

STATEMENTS OF NET POSITION (Continued)

June 30, 2020 and 2019

	2020	2019
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 143,677	$ 120,173
Accrued expenses and other liabilities	4,275	48,378
Unearned revenue	10,501	1,055
Accrued interest payable	12,713	
Current portion of noncurrent liabilities	174,034	126,534
Total Current Liabilities	345,200	296,140
Noncurrent Liabilities:		
Notes payable, net of current portion	4,524,000	4,598,000
Compensated absences, net of current portion	16,138	10,137
Net pension liability	760,047	688,430
Net OPEB liability	167,643	88,157
Total Noncurrent Liabilities	5,467,828	5,384,724
TOTAL LIABILITIES	5,813,028	5,680,864
DEFERRED INFLOWS OF RESOURCES		
Pensions	86,333	78,742
Other post-employment benefits (OPEB)	2,530	3,374
TOTAL DEFERRED INFLOWS	88,863	82,116
NET POSITION		
Net investment in capital assets	297,627	456,908
Unrestricted	1,951,748	1,610,971
TOTAL NET POSITION	2,249,375	2,067,879
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 8,151,266	$ 7,830,859

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

DEL PASO MANOR WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Water sales	$ 2,002,844	$ 1,951,136
Other water sales	16,994	139,032
Other revenue	131	
TOTAL OPERATING REVENUES	2,019,969	2,090,168
OPERATING EXPENSES		
General and administrative	636,620	651,676
Transmission and distribution	360,646	265,398
Pumping	76,051	111,090
Water purchases	5,942	5,738
Depreciation	211,550	212,081
Pension expense adjustment	98,044	43,582
Other post-employment benefits (OPEB)	101,824	24,016
TOTAL OPERATING EXPENSES	1,490,677	1,313,581
NET INCOME FROM OPERATIONS	529,292	776,587
NON-OPERATING REVENUES (EXPENSES)		
Investment income earned	24,122	16,410
Reimbursements		4,946
Interest expense	(280,418)	(286,640)
Debt issuance costs	(91,500)	
TOTAL NON-OPERATING REVENUES (EXPENSES)	(347,796)	(265,284)
CHANGE IN NET POSITION	181,496	511,303
Net position, beginning of year	2,067,879	1,556,576
NET POSITION AT END OF YEAR	$ 2,249,375	$ 2,067,879

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

DEL PASO MANOR WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 2,052,490	$ 1,967,557
Cash payments to suppliers for goods and services	(933,247)	(622,533)
Cash payments to employees for services	(213,784)	(327,911)
NET CASH PROVIDED BY OPERATING ACTIVITIES	905,459	1,017,113
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Reimbursements received		4,946
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		4,946
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and construction of capital assets	(24,269)	(125,043)
Proceeds from issuance of debt	5,000	
Principal paid on long-term debt	(124,500)	(105,000)
Interest paid on long-term debt	(242,683)	(260,330)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(386,452)	(490,373)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	24,644	14,626
NET CASH PROVIDED BY INVESTING ACTIVITIES	24,644	14,626
NET INCREASE IN CASH AND CASH EQUIVALENTS	543,651	546,312
Cash and investments at beginning of year	1,852,184	1,305,872
CASH AND INVESTMENTS AT END OF YEAR	$ 2,395,835	$ 1,852,184

Continued

DEL PASO MANOR WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash and investments - financial statement classification		
Cash and cash equivalents	$ 1,213,280	$ 694,273
Investments	1,182,555	1,157,911
TOTAL CASH AND INVESTMENTS	$ 2,395,835	$ 1,852,184
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 529,292	$ 776,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	211,550	212,081
(Increase) Decrease in:		
Accounts receivable	23,075	(94,987)
Prepaid expense	(4,733)	7,656
Deferred outflows for pensions and OPEB	(7,923)	32,618
Accounts payable	23,504	100,958
Accrued expenses and other liabilities	(44,103)	48,378
Unearned revenue	9,446	(27,624)
Compensated absences	7,501	(38,586)
Net pension liability	71,617	(15,930)
Net OPEB liability	79,486	(3,440)
Deferred inflows for pensions and OPEB	6,747	28,953
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 905,459	$ 1,026,664
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amortization of deferred amortization on refunding	$ 25,022	$ 26,310

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

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Del Paso Manor Water District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was established in 1956 as a water district located in the central portion of Sacramento County northeast of the City of Sacramento and north of the lower American River. The District serves a population of approximately 1,800. The District is predominately residential in character, with interspersed commercial areas. The District is governed by a Board of Directors consisting of five directors elected by residents of the District.

Basis of Presentation: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled water services are accrued as revenue.

Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are not being recorded as capital contributions.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

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

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

Deferred Outflows and Inflows of Resources: In addition to assets and liabilities, the statement of net position reports 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 earning process is complete. Deferred outflows and inflows of resources represent amounts deferred related to the District's pension and OPEB plan as described in Notes E and F, and for deferred amounts related to bond refunding.

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

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held include bank deposits and investments in money market mutual funds and LAIF.

Capital Assets: Capital assets are recorded at historical cost. The District has not quantified and recorded the value of developer-constructed infrastructure that has been deeded to the District. Accordingly, amounts for these assets are not reflected in these financial statements. The amount by which the capital assets may be misstated cannot be determined. Self-constructed assets are recorded based on the amount of direct labor and materials charged to the asset construction. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

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

Description	Estimated Life
Infrastructure (Wells)	5-45 years
Reservoir and tanks	40 years
Pumping equipment	5-45 years
Hydrants	45 years
Transmission and Distribution	30-45 years
Meters	10 years
Building, structures and improvements	15-35 years
Office equipment	5-7 years
Field equipment and vehicles	5-20 years

Maintenance and repairs are charged to operations when incurred. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Depreciation expense aggregated $211,550 and $212,081 for the years ended June 30, 2020 and 2019, respectively.

Deferred Amount from Refunding Debt: The difference between the reacquisition price of refunded debt and the net carrying amount of the previously outstanding debt is deferred and reported as a deferred outflow on the balance sheet. These amounts are amortized over the term of the new debt.

Compensated Absences: The District's policy allows employees to accumulate earned but unused vacation which will be paid to employees upon separation from the District's service. The cost of vacation is recognized in the period earned.

New Pronouncements: 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 leases guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

The District is currently analyzing the impact of the required implementation of this new statement.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

	2020	2019
Cash and cash equivalents	$ 1,213,280	$ 694,273
Investments	1,182,555	1,157,911
Total cash and cash equivalents	$ 2,395,835	$ 1,852,184

Cash and cash equivalents as of June 30 consisted of the following:

	2020	2019
Cash on hand	$ 293	$ 300
Deposits with financial institutions	1,207,873	693,859
Total cash	1,208,166	694,159
Money market funds	5,114	114
Investments in Local Agency Investment Fund (LAIF)	1,182,555	1,157,911
Total investments	1,187,669	1,158,025
Total cash and cash equivalents	$ 2,395,835	$ 1,852,184

Investment policy: California statutes authorize districts 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 for the District 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. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

During the year ended June 30, 2020 and 2019, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	None
Money Market Mutual Funds	N/A	20%	10%
LAIF	N/A	$4 million	None
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investments	N/A	None	None
Time Deposits	5 years	None	None

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. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District generally manages its interest rate risk by investing in the Local Agency Investment Fund (LAIF), which provides the necessary cash flow and liquidity needed for operations.

Credit Risk: Generally, 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. LAIF does not have a rating provided by a nationally recognized statistical rating agency.

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer to the amount stipulated by the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total District investments.

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

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, 2020, the carrying amount of the District's deposits were $1,207,873 and the balances in financial institutions were $1,224,629 and of this amount $974,629 was not insured by federal depository insurance. At June 30, 2019, the carrying amount of the District's deposits were $693,859 and the balances in financial institutions were $694,187 and of this amount $444,187 was not insured by federal depository insurance.

Investment in LAIF: The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at amortized cost, which approximates fair value. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, United States Treasury Notes and Bills, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The total fair value amount invested by all public agencies in LAIF as of June 30, 2020 is $101,788,256,254 managed by the State Treasurer. The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by the State Statute. At June 30, 2020, these investments matured in an average of 191 days.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 and 2019 is as follows:

	Balance July 1, 2019	Additions	Deletions	Transfers	Balance June 30, 2020
Capital assets not being depreciated:					
Land	$ 8,505				$ 8,505
Construction in progress	58,665	$ 24,269			82,934
	67,170	24,269			91,439
Capital assets being depreciated:					
Source of supply	2,459,603				2,459,603
Pumping plant	1,051,717				1,051,717
Transmission and distribution	2,393,203				2,393,203
General plant and administration	1,281,697				1,281,697
	7,186,220				7,186,220
Less accumulated depreciation:					
Source of supply	(461,593)	(53,922)			(515,515)
Pumping plant	(225,811)	(30,536)			(256,347)
Transmission and distribution	(893,716)	(61,888)			(955,604)
General plant and administration	(493,362)	(65,204)			(558,566)
	(2,074,482)	(211,550)			(2,286,032)
Net capital assets being depreciated	5,111,738	(211,550)			4,900,188
Net capital assets	$ 5,178,908	$ (187,281)	$ -	$ -	$ 4,991,627

	Balance July 1, 2018	Additions	Deletions	Transfers	Balance June 30, 2019
Capital assets not being depreciated:					
Land	$ 8,505				$ 8,505
Construction in progress	38,015	$ 20,650			58,665
	46,520	20,650			67,170
Capital assets being depreciated:					
Source of supply	2,459,603				2,459,603
Pumping plant	1,036,177	15,540			1,051,717
Transmission and distribution	2,312,578	80,625			2,393,203
General plant and administration	1,276,836	8,228	$ (3,367)		1,281,697
	7,085,194	104,393	(3,367)		7,186,220
Less accumulated depreciation:					
Source of supply	(407,060)	(54,533)			(461,593)
Pumping plant	(194,200)	(31,611)			(225,811)
Transmission and distribution	(833,171)	(60,545)			(893,716)
General plant and administration	(431,337)	(65,392)	3,367		(493,362)
	(1,865,768)	(212,081)	3,367		(2,074,482)
Net capital assets being depreciated	5,219,426	(107,688)			5,111,738
Net capital assets	$ 5,265,946	$ (87,038)	$ -	$ -	$ 5,178,908

NOTE D – LONG-TERM LIABILITIES

The activity of the District's long-term liabilities during the year ended June 30, 2020 and 2019 was as follows:

	Balance July 1, 2019	Additions	(Reductions)	Balance June 30, 2020	Due Within One Year
2020 Installment loan		$ 4,694,000		$ 4,694,000	$ 170,000
2018 Installment loan	$ 4,722,000		$ (4,722,000)		
Compensated absences	12,671	10,991	(3,490)	20,172	4,034
Net pension liability	688,430	71,617		760,047	
Net OPEB liability	88,157	79,486		167,643	
	$ 5,511,258	$ 4,856,094	$ (4,725,490)	$ 5,641,862	$ 174,034

	Balance July 1, 2018	Additions	(Reductions)	Balance June 30, 2019	Due Within One Year
2018 Installment loan	$ 4,827,000		$ (105,000)	$ 4,722,000	$ 124,000
Compensated absences	60,808	$ 11,420	(59,557)	12,671	2,534
Net pension liability	704,360		(15,930)	688,430	
Net OPEB liability	91,597		(3,440)	88,157	
	$ 5,683,765	$ 11,420	$ (183,927)	$ 5,511,258	$ 126,534

The District's long-term liabilities consist of the following:

<u>2018 Advance Refunding</u>: In June 2018, the District issued an installment loan in the amount of $4,827,000 to advance refund the previously outstanding 2010 Certificate of Participation. The 2018 Installment Loan is payable in semiannual installments including interest of 5.15% and matures in July 2040. Interest payments range from $9,244 to $136,034 semi-annually. Principal payments range from $105,000 to $359,000 annually. As of June 30, 2020, the certificates of participation were refunded with the 2020 installment loan.

<u>2020 Advance Refunding</u>: In June 2020, the District issued an installment loan in the amount of $4,694,000 to advance refund the previously outstanding 2018 Advance Refunding. The 2020 Installment Loan is payable in semiannual installments including interest of 3.25% and matures in July 2040. Interest payments range from $5,070 to $88,990 semi-annually. Principal payments range from $170,000 to $312,000 annually.

The refunding resulted in deferred amount on refunding of $332,924 and $359,234 at June 30, 2020 and 2019, respectively, which is being amortized over the remaining life of the refunded debt. Amortization expense totaled $25,022 and $26,310 for the years ended June 30, 2020 and 2019, respectively, and is included in interest expense. The deferred amount on refunding was $307,902 and $332,924 at June 30, 2020 and 2019, respectively.

The 2018 and 2020 Installment Loans are obligations of the CDSA Finance Corporation (Corporation) payable solely from payments received from the District pursuant to an Installment Purchase Contract between the Corporation and the District. The obligation of the District to make installment payments is payable solely from net revenues of the District's water system and certain funds and accounts created

NOTE D – LONG-TERM LIABILITIES (Continued)

under the Installment Purchase Contract. The 2018 and 2020 Installment Purchase Contracts require the District to agree to fix, prescribe, and collect rates and charges for its water service which will be at least sufficient to yield each fiscal year net revenues equal to 120% of the annual debt service in such fiscal year. Should the District default on payments or any covenants of the agreement, all moneys and investments in the funds and accounts held under the agreement and all gross revenues thereafter received shall be applied to principal and accrued interest.

The following is a schedule of maturities for the long-term debt outstanding:

	Principal	Interest
For the Year Ended June 30:		
2021	$ 170,000	$ 165,268
2022	177,000	147,030
2023	183,000	141,278
2024	189,000	135,330
2025	194,000	129,187
2026-2030	1,067,000	547,235
2031-2035	1,249,000	362,408
2036-2040	1,465,000	145,827
	$ 4,694,000	$ 1,773,563

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2018 Installment Loan in the original amount of $4,827,000. Proceeds of the 2018 Installment Loan were used to refund the previously outstanding 2010 Revenue Certificates of Participation. The 2018 Installment Loan was payable solely from water customer net revenues and was fully refunded with the 2020 Installment Loan in June 2020. Total principal and interest remaining to be paid on the Installment Loan was $7,852,119 at June 30, 2019. Total principal and interest paid was $367,183 and $365,330, and the total water net revenues were $940,709 and $1,056,266 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, the District's net revenues were 256% and 289% of debt service payments.

The District pledged future water system revenues, net of specified expenses, to repay the 2020 Installment Loan in the original amount of $4,694,000. Proceeds of the 2020 Installment Loan were used to refund the previously outstanding 2018 Installment Loan. The 2020 Installment Loan is payable solely from water customer net revenues and are payable through July 1, 2040. Total principal and interest remaining to be paid on the Installment Loan was $6,467,563 at June 30, 2020. There were no payments made on principal and interest for the year ended June 30, 2020 on the 2020 Installment Loan.

Debt Refunding: In June 2020, the District issued an installment loan of $4,694,000 with an average interest rate of 3.25 percent to advance refund $4,597,000 of the outstanding 2018 installment loan with an average interest rate of 4.25 percent. The District completed the advance refunding to reduce its total debt service payments over the next 20 years by $449,365 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $323,868.

NOTE E – PENSION PLANS

Plan Descriptions: All qualified employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. The District participates in the Miscellaneous and PEPRA Miscellaneous rate plans.

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

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit. The cost of living adjustments are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2020 and 2019 are summarized as follows:

Hire date	Classic Miscellaneous Plan (Prior to January 1, 2013)	PEPRA Miscellaneous Plan (On or after January 1, 2013)
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.5% to 2%	1.0% to 2%
Required employee contribution rates - 2018/19	7.00%	-
Required employer contribution rates - 2018/19	9.409%	6.84%
Required employee contribution rates - 2019/20	7.00%	-
Required employer contribution rates - 2019/20	10.221%	-

In addition to the contribution rates above, the District was also required to make payments of $45,360 and $36,572 towards its unfunded actuarial liability during the years ended June 30, 2020 and 2019, respectively.

The Classic Miscellaneous 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

NOTE E – PENSION PLANS (Continued)

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.

The employer contributions for the Plans were $59,861 and $67,069 for the years ended June 30, 2020 and 2019, respectively.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2020 and 2019, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of $760,047 and $688,430, respectively.

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability as of June 30, 2020 and 2019 is measured as of June 30, 2019 and 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, 2018 and 2017 rolled forward to June 30, 2019 and 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2020 and 2019 was as follows:

Proportion - June 30, 2018	0.01784%
Proportion - June 30, 2019	0.01827%
Change - Increase	0.00043%
Proportion - June 30, 2019	0.01827%
Proportion - June 30, 2020	0.01898%
Change - Increase	0.00071%

For the year ended June 30, 2020 and 2019, the District had pension expense of $157,905 and $55,407 at June 30, 2020 and 2019, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 59,861		$ 67,069	
Differences between actual and expected experience	52,788	$ (4,090)	26,414	$ (8,988)
Changes in assumptions	36,243	(12,848)	78,484	(19,236)
Change in employer's proportion	26,974	(1,117)	19,332	(2,513)
Differences between the employer's contribution and the employer's proportionate share of contributions		(54,990)		(48,005)
Net differences between projected and actual earnings on plan investments		(13,288)	3,403	
Total	$ 175,866	$ (86,333)	$ 194,702	$ (78,742)

NOTE E – PENSION PLANS (Continued)

The $59,861 and $67,069 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021 and 2020, respectively. Other amounts reported as net deferred outflows of resources related to pensions at June 30, 2020 will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2021	$ 38,821
2022	(14,207)
2023	2,373
2024	2,685
	$ 29,672

Actuarial Assumptions: The total pension liabilities in the actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

	June 30, 2020	June 30, 2019
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15% (1)	7.15% (1)
Inflation	2.50%	2.50%
Salary Increases	Varies by entry age and service	Varies by entry age and service
Mortality	Derived using CalPERS Membership Data for all Funds	Derived using CalPERS Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

The mortality table used was developed based on CalPERS-specific data. The table for June 30, 2020 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 (based on CalPERS demographic data from 1997 to 2015). Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rates used to measure the total pension liability were 7.15% as of June 30, 2020 and 2019. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE E – PENSION PLANS (Continued)

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

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

The table below reflects the long-term expected real rate of return by asset class for the Plan as of the measurement dates of June 30. 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.

	2020			2019		
Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%	1.0%	0.00%	-0.92%
Total	100.0%			100.0%		

(a) An expected inflation of 2.00% used for this period.
(b) An expected inflation of 2.92% used for this period.

NOTE E – PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, 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:

	2020	2019
1% Decrease	6.15%	6.15%
Net Pension Liability	$ 1,217,466	$ 1,144,562
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$ 760,047	$ 688,430
1% Increase	8.15%	8.15%
Net Pension Liability	$ 382,480	$ 336,666

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

NOTE F – OTHER POST-EMPLOYMENT BENEFITS

Plan Description: The District's defined benefit OPEB plan (the Plan) is a single employer OPEB plan administered by CalPERS through participation in California Employers' Retiree Benefit Trust (CERBT) Fund. On June 1, 2005 the Board of Directors passed a resolution to establish health benefit vesting requirements for future retirees under the public employees' medical and hospital care act, whereas an employee who is employed by the District for 5 years or longer and who has met other vesting requirements as defined by Government Code 20079, shall receive up to a maximum 100% of the health benefit for the employee premium plus 90% of the additional premium required for enrollment of family members in selected plans. The retiree benefits for employees hired prior to August 1, 2005 are entitled to receive the same benefits as active employees noted above. Those hired after August 1, 2005 are entitled to receive medical only lifetime benefits with required service of 20 years and the plan paying 50% of premiums after 10 years of service and an additional 5% for each additional year of service with a maximum District contribution of 100%. The minimum age for receiving benefits is 50 and there is no District cap. The plan also provides coverage for dependents. For employees who are eligible to participate in the plan, the District will contribute health benefit costs for the retiree and family members at an amount approved by resolution and accepted by CalPERS based on the average amount of the HMO plans offered by CalPERS. A retiree with less than the required years of service with the District will receive no benefit, unless they have previous employment qualifying them for CalPERS retirement, in which case they are eligible to receive the CalPERS minimum at the time of retirement. The CalPERS minimum is set by law. The Board of Directors grants the authority to establish and amend the benefit terms to the CalPERS Board of Trustees (CalPERS Board). CalPERS issues a publicly available financial report for the CERBT that can be obtained at www.calpers.ca.gov under Forms and Publications.

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Benefits Provided: The Plan provides healthcare benefits for retirees, surviving spouses and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits are covered by the Plan.

Employees Covered by Benefit Terms: As of the June 30, 2019 and 2017 actuarial valuations, the following current and former employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	4	1
Active employees	1	4
Total	5	5

Contributions: The Board of Directors grants the authority to establish and amend the contribution requirements of the District and employees. Employees are not required to contribute to the Plan. No cash contributions were made to the trust during the year ended June 30, 2020. During the fiscal year ended June 30, 2019, the District's contributions to the trust were $25,000. In addition, during the years ended June 30, 2020 and 2019, the District paid retiree premiums of $49,941 and $7,580, respectively.

Net OPEB Liability: The District's net OPEB liability was measured as of June 30, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and 2017.

Actuarial Assumptions: The total OPEB liability in the June 30, 2019 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	2020	2019
Valuation date	June 30, 2019	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018
Actuarial cost method	Entry-age normal cost method	Entry-age normal cost method
Actuarial assumptions:		
Discount rate	7.0%	7.0%
Inflation	2.75%	2.75%
Salary increases	2.75% per year	2.75% per year
Investment rate of return	7.0%	7.0%
Mortality rate	Derived using CalPERS membership data	Derived using CalPERS membership data
Pre-retirement turnover	Derived using CalPERS membership data	Derived using CalPERS membership data
Healthcare trend rate	4% annually	4% annually

Mortality information for active and retired employees was based on the 2017 and 2014 CalPERS tables, for the years ended June 30, 2020 and 2019, respectively. The pre-retirement turnover information was developed based on the 2017 and 2009 CalPERS Turnover for Miscellaneous Employees tables created by CalPERS, for the years ended June 30, 2020 and 2019, respectively.

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The assumed gross 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) are 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 for each major asset class are summarized in the following table:

	2020		2019	
Asset Class	Percentage of Portfolio	Assumed Gross Return	Percentage of Portfolio	Assumed Gross Return
Global Equity	59.0%	7.80%	57.0%	4.82%
Fixed Income	25.0%	4.50%	27.0%	1.47%
Tresaury Inflation Protected Securities	5.0%	3.25%	5.0%	1.29%
Real Estate Investment Trusts	8.0%	7.50%	8.0%	3.76%
Commodities	3.0%	7.80%	3.0%	0.84%
	100.0%		100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. 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.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2019	$ 653,869	$ 565,712	$ 88,157
Changes in the year:			
Service cost	19,157		19,157
Interest	46,030		46,030
Differences between expected and actual experience	94,801		94,801
Changes in assumptions	(18,338)		(18,338)
Contributions - employer		25,000	(25,000)
Net investment income		37,288	(37,288)
Administrative expenses		(124)	124
Benefit payments	(7,185)	(7,185)	-
Net changes	134,465	54,979	79,486
Balance at June 30, 2020 (measurement date June 30, 2019)	$ 788,334	$ 620,691	$ 167,643

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2018	$ 600,661	$ 509,064	$ 91,597
Changes in the year:			
Service cost	18,644		18,644
Interest	42,424		42,424
Contributions - employer		25,000	(25,000)
Net investment income		40,420	(40,420)
Administrative expenses		(912)	912
Benefit payments	(7,860)	(7,860)	
Net changes	53,208	56,648	(3,440)
Balance at June 30, 2019 (measurement date June 30, 2018)	$ 653,869	$ 565,712	$ 88,157

<u>Sensitivity of the Net OPEB Liability to Changes in the Discount Rate</u>: 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:

	2020		
	1% Decrease 6%	Current Discount Rate 7%	1% Increase 8%
Net OPEB liability	$ 254,104	$ 167,643	$ 95,780

	2019		
	1% Decrease 6%	Current Discount Rate 7%	1% Increase 8%
Net OPEB liability	$ 169,606	$ 88,157	$ 20,132

<u>Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates</u>: 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:

	2020		
	1% Decrease 3%	Current Healthcare Cost Trend Rates 4%	1% Increase 5%
Net OPEB liability	$ 90,666	$ 167,643	$ 259,350

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

	2019		
	1% Decrease 3%	Current Healthcare Cost Trend Rates 4%	1% Increase 5%
Net OPEB liability	$ 14,443	$ 88,157	$ 173,921

<u>OPEB Plan Fiduciary Net Position</u>: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERBT financial report at www.calpers.ca.gov.

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u>: For the year ended June 30, 2020 and 2019 the District recognized OPEB expense of $101,824 and $24,016, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 49,941		$ 25,000	
Difference between expected and actual experience	787		1,313	
Net differences between projected and actual earnings on plan investments	2,344	$ (2,530)		$ (3,374)
Total	$ 53,072	$ (2,530)	$ 26,313	$ (3,374)

The $49,941 and $25,000 reported as deferred outflows of resources related to contributions after the measurement date will be recognized as a reduction of the OPEB liability in the subsequent fiscal year. Other 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	
2021	$ 269
2022	4
2023	(255)
2024	583
	$ 601

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Recognition of Deferred Outflows and Deferred Inflows of Resources: Gains and losses related to changes in the total OPEB liability and the fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss. The net difference between projected and actual earnings on OPEB plan investments is recognized over 5 years. The net difference between expected and actual experience are recognized over the expected average remaining service lifetime (EARSL), which was 3.5 years at the June 30, 2019 valuation date.

Age-Adjusted Premiums Not Used: As a general rule, Actuarial Standard of Practice 6 (ASOP 6) indicates retiree costs should be based on actual claim costs or age-adjusted premiums. However, the Plan's net OPEB liability was not computed using age-adjusted premiums because the District's actuary applied Section 3.7.7(c)4 for the ASOP 6 and determined age-adjusted premiums are not necessary and therefore, the Implicit Rate Subsidy is not applicable in calculating the total projection of benefit payments. This is due to the District participating in the CalPERS health insurance plan, PEMHCA. PEMHCA uses blended premiums for active and retired participants and is expected to continue this practice into the future. Contributions based on age-adjusted premiums would be larger than contributions based on actual premiums charged by PEMHCA. The actuary believes this would overstate contributions to the CERBT that would not be able to be recovered by the District. Many other actuaries believe it is appropriate to use age-adjusted premiums when computing net OPEB liabilities under GASB Statement No. 75. The District's net OPEB liability would have been significantly larger had it been computed using age-adjusted premiums.

NOTE G – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public official's liability, property damage, fidelity insurance and workers compensation liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (includes public officials liability)	$5,000,000	$55,000,000	None
Property Damage	100,000	500,000,000	$500 to $25,000
Fidelity	100,000		$1,000
Workers Compensation liability	2,000,000	excess of $2 million	None
Cyber Liability		$3,000,000 occurrence/ $5,000,000 aggregate	$10,000

NOTE G – INSURANCE (Continued)

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE H – LEASE OBLIGATION

The District leases office space under an operating lease ending in December 2021. There is a provision to extend the lease for another 5 years after the end of the lease. Monthly rent is adjusted by 3% annually. Rent expense amounted to $22,675 and $23,545 for the years ended June 30, 2020 and 2019, respectively. Future minimum lease payments are as follows:

Year Ended June 30	
2021	$ 24,960
2022	10,525
	$ 35,485

NOTE I – CONTINGENCIES

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal council, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition as of June 30, 2020.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

DEL PASO MANOR WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2020

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
Last 10 Years

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.01898%	0.01827%	0.01787%	0.01727%	0.01607%	0.01719%
Proportionate share of the net pension liability	$ 760,047	$ 688,430	$ 704,360	$ 587,867	$ 440,960	$ 420,396
Covered payroll - measurement period	$ 324,130	$ 338,501	$ 323,644	$ 312,320	$ 303,257	$ 295,442
Proportionate share of the net pension liability as a percentage of covered payroll	234.49%	203.38%	217.63%	188.23%	145.41%	142.29%
Plan fiduciary net position as a percentage of the total pension liability	77.65%	78.15%	75.05%	81.02%	84.93%	82.11%

Notes to Schedule:
Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017 and to 7.15% in 2018.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

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

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 59,861	$ 67,069	$ 58,501	$ 51,598	$ 45,788	$ 37,674
Contributions in relation to the actuarially determined contributions	(59,861)	(67,069)	(58,501)	(51,598)	(45,788)	(37,674)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll - fiscal year	$ 150,650	$ 324,130	$ 338,501	$ 323,644	$ 312,320	$ 309,257
Contributions as a percentage of covered payroll	39.74%	20.69%	17.28%	15.94%	14.66%	12.18%

Notes to Schedule:

Valuation date:	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Methods and assumptions used to determine contribution rates:						
Valuation cost method	Entry age normal					
Amortization method	Level percentage of payroll, closed					
Remaining amortization period	Varies, not more than 30 years					
Asset valuation method	Market Value	Market Value	Market Value	Market Value	Market Value	15-year smoothed market
Inflation	2.625%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	Varies by entry age and service					
Payroll growth	2.875%	3.00%	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.25%	7.375%	7.50%	7.50%	7.50%	7.50%
Retirement age	(3)	(3)	(3)	(2)	(2)	(2)

Notes to Schedule:

(1) Net of administrative expenses, includes inflation.

(2) Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study for the period from 1997 to 2007.

(3) Probabilities of retirement and mortality are based on CalPERS' 2014 Experience Study for the period from 1997 to 2011.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015, thus information prior to this date was not presented.

DEL PASO MANOR WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2020

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

	2020	2019	2018
Total OPEB liability:			
Service cost	$ 19,157	$ 18,644	$ 18,145
Interest	46,030	42,424	38,939
Differences between expected and actual experience	94,801		
Changes in assumptions	(18,338)		
Benefit payments	(7,185)	(7,860)	(7,742)
Net change in total OPEB liability	134,465	53,208	49,342
Total OPEB liability - beginning	653,869	600,661	551,319
Total OPEB liability - ending (a)	$ 788,334	$ 653,869	$ 600,661
Plan fiduciary net position:			
Contributions - employer	$ 25,000	$ 25,000	$ 23,112
Net investment income	37,288	40,420	47,627
Benefit payments	(7,185)	(7,860)	(7,742)
Administrative expenses	(124)	(912)	(239)
Net change in plan fiduciary net position	54,979	56,648	62,758
Plan fiduciary net position - beginning	565,712	509,064	446,306
Plan fiduciary net position - ending (b)	$ 620,691	$ 565,712	$ 509,064
Net OPEB liability - ending (a)-(b)	$ 167,643	$ 88,157	$ 91,597
Plan fiduciary net position as a percentage of the total OPEB liability	78.73%	86.52%	84.75%
Covered-employee payroll - measurement period	$ 324,130	$ 338,501	$ 323,644
Net OPEB liability as percentage of covered-employee payroll	51.72%	26.04%	28.30%
Notes to schedule:			
Valuation date	June 30, 2019	June 30, 2017	June 30, 2017
Measurement period - fiscal year ended	June 30, 2019	June 30, 2018	June 30, 2017

Benefit changes. None.

Changes in assumptions. During 2018, the discount rate was changed from 7.5% to 7.0%.

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.

DEL PASO MANOR WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2020

SCHEDULE OF CONTRIBUTIONS TO THE OPEB PLAN (UNAUDITED)

	2020	2019	2018
Statutorily required contribution - employer fiscal year	$ 49,941	$ 7,185	$ 7,860
Contributions in relation to the statutorily required contributions	(49,941)	(32,185)	(32,860)
Contribution deficiency (excess)	$ -	$ (25,000)	$ (25,000)
Covered-employee payroll - employer fiscal year	$ 150,650	$ 324,130	$ 338,501
Contributions as a percentage of covered-employee payroll	33.15%	2.22%	2.32%

Notes to Schedule:

An actuarially determined contribution rate was not calculated. The required contributions reported represent retiree premium payments.

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.

SUPPLEMENTAL INFORMATION

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF NET POSITION

June 30, 2020

ASSETS	Operating Fund	Maintenance Fund	Total
Current Assets:			
Cash and cash equivalents	$ 593,619	$ 619,661	$ 1,213,280
Investments	575,883	606,672	1,182,555
Accounts receivable			
Current services	152,593	49,794	202,387
Accrued interest receivable	4,315		4,315
Prepaid expenses	20,262		20,262
Total Current Assets	1,346,672	1,276,127	2,622,799
Capital Assets:			
Nondepreciable	91,439		91,439
Depreciable, net of accumulated depreciation	4,900,188		4,900,188
Total Capital Assets, Net	4,991,627	-	4,991,627
TOTAL ASSETS	6,338,299	1,276,127	7,614,426
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	307,902		307,902
Pensions	175,866		175,866
Other postemployment benefits (OPEB)	53,072		53,072
TOTAL DEFERRED OUTFLOWS	536,840	-	536,840
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 6,875,139	$ 1,276,127	$ 8,151,266

Continued

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF NET POSITION (Continued)

June 30, 2020

LIABILITIES	Operating Fund	Maintenance Fund	Total
Current Liabilities:			
Accounts payable	$ 108,769	$ 34,908	$ 143,677
Accrued expenses and other liabilities	4,275		4,275
Unearned revenue	10,501		10,501
Accrued interest payable	12,713		12,713
Current portion of noncurrent liabilities	174,034		174,034
Total Current Liabilities	310,292	34,908	345,200
Noncurrent Liabilities:			
Notes payable, net of current portion	4,524,000		4,524,000
Compensated absences	16,138		16,138
Net pension liability	760,047		760,047
Net OPEB liability	167,643		167,643
Total Noncurrent Liabilities	5,467,828	-	5,467,828
TOTAL LIABILITIES	5,778,120	34,908	5,813,028
DEFERRED INFLOWS OF RESOURCES			
Pensions	86,333		86,333
Other post-employment benefits (OPEB)	2,530		2,530
TOTAL DEFERRED INFLOWS	88,863	-	88,863
NET POSITION			
Net investment in capital assets	297,627		297,627
Unrestricted	710,529	1,241,219	1,951,748
TOTAL NET POSITION	1,008,156	1,241,219	2,249,375
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 6,875,139	$ 1,276,127	$ 8,151,266

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

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF NET POSITION

June 30, 2019

ASSETS	Operating Fund	Maintenance Fund	Total
Current Assets:			
Cash and cash equivalents	$ 281,992	$ 412,281	$ 694,273
Investments	470,306	687,605	1,157,911
Accounts receivable			
Current services	175,887	49,575	225,462
Accrued interest receivable	4,837		4,837
Prepaid expenses	15,529		15,529
Total Current Assets	948,551	1,149,461	2,098,012
Capital Assets:			
Nondepreciable	67,170		67,170
Depreciable, net of accumulated depreciation	5,111,738		5,111,738
Total Capital Assets, Net	5,178,908		5,178,908
TOTAL ASSETS	6,127,459	1,149,461	7,276,920
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	332,924		332,924
Pensions	194,702		194,702
Other postemployment benefits (OPEB)	26,313		26,313
TOTAL DEFERRED OUTFLOWS	553,939		553,939
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 6,681,398	$ 1,149,461	$ 7,830,859

Continued

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF NET POSITION (Continued)

June 30, 2019

LIABILITIES	Operating Fund	Maintenance Fund	Total
Current Liabilities:			
Accounts payable	$ 98,248	$ 21,925	$ 120,173
Accrued expenses and other liabilities	48,378		48,378
Unearned revenue	1,055		1,055
Current portion of noncurrent liabilities	126,534		126,534
Total Current Liabilities	274,215	21,925	296,140
Noncurrent Liabilities:			
Notes payable, net of current portion	4,598,000		4,598,000
Compensated absences	10,137		10,137
Net pension liability	688,430		688,430
Net OPEB liability	88,157		88,157
Total Noncurrent Liabilities	5,384,724		5,384,724
TOTAL LIABILITIES	5,658,939	21,925	5,680,864
DEFERRED INFLOWS OF RESOURCES			
Pensions	78,742		78,742
Other post-employment benefits (OPEB)	3,374		3,374
TOTAL DEFERRED INFLOWS	82,116	-	82,116
NET POSITION			
Net investment in capital assets	456,908		456,908
Unrestricted	483,435	1,127,536	1,610,971
TOTAL NET POSITION	940,343	1,127,536	2,067,879
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 6,681,398	$ 1,149,461	$ 7,830,859

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

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2020

	Operating Fund	Maintenance Fund	Total
OPERATING REVENUES			
Water sales	$ 1,407,002	$ 595,842	$ 2,002,844
Other water sales	16,994		16,994
Other revenue	131		131
TOTAL OPERATING REVENUES	1,424,127	595,842	2,019,969
OPERATING EXPENSES			
General and administrative	636,620		636,620
Transmission and distribution	307,674	52,972	360,646
Pumping	76,051		76,051
Water purchases	5,942		5,942
Depreciation	211,550		211,550
Pension expense adjustment	98,044		98,044
Other post-employment benefits (OPEB)	101,824		101,824
TOTAL OPERATING EXPENSES	1,437,705	52,972	1,490,677
NET INCOME FROM OPERATIONS	(13,578)	542,870	529,292
NON-OPERATING REVENUES (EXPENSES)			
Investment income earned	24,122		24,122
Interest expense		(280,418)	(280,418)
Debt issuance costs	(91,500)		(91,500)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(67,378)	(280,418)	(347,796)
TRANSFERS			
Transfers in	148,769		148,769
Transfers out		(148,769)	(148,769)
TOTAL OPERATING TRANSFERS	148,769	(148,769)	-
CHANGE IN NET POSITION	67,813	113,683	181,496
Net position, beginning of year	940,343	1,127,536	2,067,879
NET POSITION AT END OF YEAR	$ 1,008,156	$ 1,241,219	$ 2,249,375

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

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2019

	Operating Fund	Maintenance Fund	Total
OPERATING REVENUES			
Water sales	$ 1,356,207	$ 594,929	$ 1,951,136
Other Water Sales	139,032		139,032
TOTAL OPERATING REVENUES	1,495,239	594,929	2,090,168
OPERATING EXPENSES			
General and administrative	651,676		651,676
Transmission and distribution	265,398		265,398
Pumping	111,090		111,090
Water purchases	5,738		5,738
Depreciation	212,081		212,081
Pension expense adjustment	43,582		43,582
Other post-employment benefits (OPEB)	24,016		24,016
TOTAL OPERATING EXPENSES	1,313,581	-	1,313,581
NET INCOME FROM OPERATIONS	181,658	594,929	776,587
NON-OPERATING REVENUES (EXPENSES)			
Investment income earned	16,410		16,410
Reimbursements	4,946		4,946
Interest expense		(286,640)	(286,640)
TOTAL NON-OPERATING REVENUES (EXPENSES)	21,356	(286,640)	(265,284)
TRANSFERS			
Transfers in	203,732		203,732
Transfers out		(203,732)	(203,732)
TOTAL OPERATING TRANSFERS	203,732	(203,732)	-
CHANGE IN NET POSITION	406,746	104,557	511,303
Net position, beginning of year, as previously reported	533,597	1,022,979	1,556,576
NET POSITION AT END OF YEAR	$ 940,343	$ 1,127,536	$ 2,067,879

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

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COMPLIANCE REPORTS

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

To the Board of Directors
Del Paso Manor Water District
Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Del Paso Manor Water District Sacramento, California (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 2, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings as Findings 2020-001 and 2019-002 that we consider to be material weaknesses.

To the Board of Directors
Del Paso Manor Water District

Compliance and Other Matters

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

Del Paso Manor Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Richardson & Company, LLP

February 2, 2021

Finding 2020-001 – Internal Controls over Billings and Cash Receipts – Material Weakness

Condition: Duties related to processing customer bills and collections of the bills are not adequately segregated. We noted the Office Manager generates customer bills, processes customer payments, makes bank deposits, and can adjust or write off customer accounts, with no review of work performed.

Criteria: Internal controls over financial reporting should be in place to ensure the District has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements and to properly reduce the risk of fraud by establishing proper separation of duties and review functions.

Cause: The District has limited staff to ensure adequate segregation of duties and has not put in place reviews to mitigate the risk of the lack of segregation of duties.

Effect: An increased risk that a material misstatement of the financial statements could occur due to fraud or error and not be detected or corrected timely.

Recommendation: While it is difficult to segregate duties due to limited staff size, the following procedures can be put in place to compensate for this lack of segregation of duties:

1. The Office Manager should not be given rights within the billing system to make adjustments to customer accounts or to write off balances. If this is not possible, then at a minimum, a list of billing adjustments needs to be generated from the system and reviewed by either the General Manager or the outside accountant.
2. On a monthly basis, the outside accountant needs to compare the receivable balance from the billing system to the general ledger and follow up on the nature of any reconciling items.
3. The General Manager should review the Accounts Receivable Aging Report from the utility billing system on a monthly basis.

District's Response: The District plans on implementing these recommendations.

PRIOR YEAR FINDINGS

Finding 2019-001 – Internal Controls over Financial Reporting & Segregation of Duties – Material Weakness

Condition: A number of areas were identified where proper segregation of duties were not in a place related to payroll, general disbursements and customer billings.

Recommendation: We recommended that the District develop internal control procedures to create a responsible structure for accurate financial reporting and proper separation of duties. Procedures should be in place to prepare the required reconciliations at year-end and throughout the year. Policies and procedures should be developed to ensure proper separation of duties and oversight.

Status: The District has resolved all of these items except as indicated in Finding 2020-001.

Finding 2019-002 – Capital Assets – Material Weakness

Condition: Developer-constructed infrastructure that is deeded to the District has not been recorded as capital assets in the District's general ledger. In addition, an inventory of the capital assets has not been performed recently to verify whether assets on the listing are still on-hand. We also noted that the Board does not approve asset disposals.

Criteria: A complete and accurate capital asset listing including developer-constructed assets needs to be maintained.

Cause: Due to the District's small staff size, it appears certain policies and procedures have not been put into place.

Effect: This situation creates a misstatement of the capital assets.

Recommendation: We recommend the following:

- Estimate and record the amount of developer donated assets and related depreciation.
- Physical count of capital assets to be performed, to determine if any impaired or disposed assets remain on the capital asset listing that need to be removed.

District's Response: An inventory of fixed assets, based on the current fixed asset list, will be performed and updated as necessary. A definition of maintenance fund expenditures will also be established so that the District can easily track the maintenance fund.

Management and staff will perform an analysis to determine if the amount of developer infrastructure can be calculated, and if reasonable, amounts will be included in the fixed asset listing and general ledger.

Status: The District has not yet identified and quantified the developer-constructed infrastructure.