

ITEM #1

June 1, 2020 Minutes

**MINUTES OF THE FINANCE STANDING COMMITTEE MEETING
DEL PASO MANOR WATER DISTRICT**

June 1, 2020

6:30 PM

Teleconference Meeting due to Coronavirus Pandemic

The Board of Directors of the Del Paso Manor Water District convened a Regular Board Meeting using the “GoToMeeting” teleconference system on March 5, 2020 at 6:30 p.m. The minutes are action only. The recording to the meeting is attached to the minutes as well the District website.

6/1/2020 Finance Committee Board Meeting Recording

<https://transcripts.gotomeeting.com/#/s/3189810c1f66030be18d4f498e73b5656e274c1678938a77eda8f3710e8e904c>

Call to Order:

President Lenahan called the meeting to order at 6:30 p.m.

Roll Call:

Directors Present: Marissa Burt, John Lenahan
Directors Absent: None
Staff Present: None
Legal Counsel Present: N/A
Guests: Robert Merritt, CPA
Public Present: Members of the public were on the conference call.

Announcements:

Director Schneider was present on the call. President Lenahan explained that Director Schneider could not comment during the meeting.

Public Comment:

None

Items for Discussion:

1. June 1, 2020 Minutes
Director Burt moved to approve the June 1, 2020 minutes. President Lenahan seconded.

Motion Passed on a Roll Call Vote

Ayes	Burt, Lenahan
Noes	0
Absent	0

2. Audit Update
Robert Merritt presented the 2018-2019 Audit.

3. Budget to Actuals
Robert Merritt presented the 2018-2019 Audit.
4. 2020 – 2021 Budget
Robert Merritt will present a draft 2020-2021 Draft Budget at the next Finance Standing Committee.
5. Operations and Maintenance/Capital Improvement Guidelines and Principles
Robert Merritt will bring Operations and Maintenance/Capital Improvement Guidelines and Principles at the next Finance Standing Committee.
6. DPMWD Reserve Policy
No action taken.
7. Customer Bills
 - a. System Maintenance to Capital Improvement Plan
The Finance Standing will make a recommendation at the next Regular Board Meeting.
 - b. Fees Discussion
 - c. The Finance Standing will make a recommendation at the next Regular Board Meeting.

Adjournment:

President Lenahan adjourned the meeting at 7:58 p.m.

Next scheduled meeting: July 7th, 2020 Regular Board Meeting

John Lenahan, President

Victoria Hoppe, Secretary

ITEM #2

Audit Update

DEL PASO MANOR WATER DISTRICT

Audited Financial Statements

June 30, 2019 and 2018

(This page intentionally left blank.)

DEL PASO MANOR WATER DISTRICT

Audited Financial Statements

June 30, 2019 and 2018

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
<u>Basic Financial Statements</u>	
Statements of Net Position.....	7
Statements of Revenues, Expenses and Changes in Net Position.....	9
Statements of Cash Flows.....	10
Notes to The Basic Financial Statements.....	12
<u>Required Supplementary Information</u>	
Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions to the Pension Plan (Unaudited).....	32
Schedule of Changes in the Net OPEB Liability and Related Ratios (Unaudited).....	33
Schedule of Contributions to OPEB Plan (Unaudited).....	34
<u>Supplementary Information</u>	
Combining Statement of Net Position – June 30, 2019.....	35
Combining Statement of Net Position – June 30, 2018.....	37
Combining Statement of Revenues, Expenses and Changes in Net Position – June 30, 2019.....	39
Combining Statement of Revenues, Expenses and Changes in Net Position – June 30, 2018.....	40
<u>Compliance Section</u>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41
Schedule of Findings and Questioned Costs.....	43
Schedule of Prior Year Findings.....	46



550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

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 statement of net position as of June 30, 2019, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit 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

To the Board of Directors
Del Paso Manor Water District

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, 2019, and the changes in financial position and cash flows thereof for the year 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.

Other Matters

The financial statements of the District as of and for the year ended June 30, 2018 were audited by other auditors whose report dated October 25, 2018 expressed an unmodified opinion on those statements.

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

June 2, 2020

**Del Paso Manor Water District
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2019**

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, 2019. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018 /19

- At the end of the current year, total net position (total assets less total liabilities) of the District was a positive \$2.1 million.
- During the year, the District's net position increased by approximately \$500,000.
- The District's capital asset balance before depreciation was \$7.2 million at the end of the year.
- The District has recognized a liability in the amount of \$688 thousand for a net pension obligation due to Governmental Accounting Standards Board Statement (GASB) 68. The liability decreased approximately \$16 thousand from the prior year. See Note E of the basic financial statements.
- The District has recognized a liability in the amount of \$88 thousand for post-employment benefits. The liability decreased approximately \$4 thousand from the prior year. See Note F of the basic financial statements.
- The District's installment loan balance was reduced from \$4.8 million at June 30, 2018 to \$4.7 million at June 30, 2019 with a \$105,000 principal payment.

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, 2019 and 2018. 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.

**Del Paso Manor Water District
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2019**

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, 2019 and 2018

	2019	2018	Increase/(Decrease) from 2018	2017
Current and other assets	\$ 2,098,012	\$ 1,462,585	\$ 635,427	\$ 2,057,440
Capital assets, net	5,178,908	5,265,946	(87,038)	5,469,097
Total assets	<u>7,276,920</u>	<u>6,728,531</u>	<u>548,389</u>	<u>7,526,537</u>
Deferred outflows of resources	553,939	612,867	(58,928)	164,057
Current liabilities	296,140	162,445	133,695	172,345
Long-term liabilities	5,384,724	5,569,214	(184,490)	5,695,827
Total liabilities	<u>5,680,864</u>	<u>5,731,659</u>	<u>(50,795)</u>	<u>5,868,172</u>
Deferred inflows of resources	82,116	53,163	28,953	52,729
Net investment in capital assets	456,908	438,946	17,962	414,097
Unrestricted net position	<u>1,610,971</u>	<u>1,117,630</u>	<u>493,341</u>	<u>1,355,596</u>
Total net position	<u>\$ 2,067,879</u>	<u>\$ 1,556,576</u>	<u>\$ 511,303</u>	<u>\$ 1,769,693</u>

Condensed Statements of Revenue, Expenses and Changes in Net Position
Fiscal Years Ended June 30, 2019 and 2018

	2019	2018	Increase/(Decrease) from 2018	2017
Operating revenues	\$ 2,090,168	\$ 1,403,722	\$ 686,446	\$ 1,389,987
Non-operating revenues	21,356	9,693	11,663	5,873
Total revenues	<u>2,111,524</u>	<u>1,413,415</u>	<u>698,109</u>	<u>1,395,860</u>
Depreciation expense	212,081	214,429	(2,348)	219,899
Operating expenses	1,101,500	1,082,468	19,032	996,396
Total expenses	<u>1,313,581</u>	<u>1,296,897</u>	<u>16,684</u>	<u>1,216,295</u>
Non-operating expenses	<u>(286,640)</u>	<u>(263,038)</u>	<u>(23,602)</u>	<u>(266,713)</u>
Changes in net position	511,303	(146,520)	657,823	(87,148)
Beginning net position - restated in 2017	<u>1,556,576</u>	<u>1,703,096</u>	<u>(146,520)</u>	<u>1,856,841</u>
Ending net position	<u>\$ 2,067,879</u>	<u>\$ 1,556,576</u>	<u>\$ 511,303</u>	<u>\$ 1,769,693</u>

**Del Paso Manor Water District
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2019**

CURRENT AND OTHER ASSETS

As of June 30, 2019, the District's current and other assets totaled \$2.1 million which was an increase of \$635,000 over the June 30, 2018 balances of approximately \$1.5 million. Much of the increase in current assets was a result of increases in cash and investments of \$546,000 and accounts receivable of \$95,000. These increases were the result of higher water sales during fiscal 2019 and a \$650,000 improvement in net position.

CAPITAL ASSETS

As of June 30, 2019, the District's investments in capital assets, including factoring accumulated depreciation, totaled \$5.2 million which was a decrease of \$87,000 over the capital asset balance at June 30, 2018 of \$5.3 million.

During the year, the District invested approximately \$21,000 into well 7 in order to extend its life, and almost an additional \$100,000 in capitalized costs to the pumping and distribution system. Depreciation expense for the fiscal years 2019 and 2018 was \$212,081 and \$214,429 respectively.

CURRENT LIABILITIES

As of June 30, 2019 the District's current liabilities totaled approximately \$300,000 which was an increase of \$134,000 over the June 30, 2018 balances. Much of the increase in current liabilities was the result of higher accounts payable balances, and higher accrued payroll balances compared to 2018, which were settled shortly after year end.

LONG - TERM DEBT

As of June 30, 2019, the District had \$4,722,000 in outstanding business-type debt as reported in the statement of net position and in the notes to the financial statements. The District's debt decreased by a principal payment of \$105,000 made during the fiscal year.

OPERATING REVENUES AND EXPENSES

Water sales and other revenues increased from \$1.4 million in 2018 to approximately \$2.1 million in 2019. As discussed below, at the end of 2018, the District approved a rate increase which was in affect during all of fiscal 2019. Operating expenses were relatively consistent from year to year at approximately \$1.1 million in 2018 and 2019.

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 four to five years. Del Paso Manor Water District's rates continue to remain competitive with other water purveyors in the region.

**Del Paso Manor Water District
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2019**

The aging infrastructure of the District still needs to be addressed. The Board plans on updating the 2009 Master Plan in the next fiscal year 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.

The District is currently considering refinancing the existing installment loan of \$4,722,000. This loan has an interest rate of 5.15% and the District believes it can obtain a lower interest rate which would save the District approximately \$400,000 in future interest expense. If completed, the refinance is expected to close towards the end of fiscal 2020 or the beginning of fiscal 2021.

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.

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 694,273	\$ 662,554
Investments	1,157,911	643,318
Accounts receivable		
Current services	225,462	130,475
Accrued interest receivable	4,837	3,053
Prepaid expenses	15,529	23,185
Total Current Assets	<u>2,098,012</u>	<u>1,462,585</u>
Capital Assets:		
Nondepreciable	67,170	46,520
Depreciable, net of accumulated depreciation	5,111,738	5,219,426
Total Capital Assets, Net	<u>5,178,908</u>	<u>5,265,946</u>
TOTAL ASSETS	<u>7,276,920</u>	<u>6,728,531</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	332,924	359,234
Other postemployment benefits (OPEB)	26,313	25,000
Pensions	194,702	228,633
TOTAL DEFERRED OUTFLOWS	<u>553,939</u>	<u>612,867</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 7,830,859</u>	<u>\$ 7,341,398</u>

Continued

DEL PASO MANOR WATER DISTRICT
STATEMENTS OF NET POSITION (Continued)

June 30, 2019 and 2018

	2019	2018
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 120,173	\$ 19,215
Accrued expenses and other liabilities	48,378	
Unearned revenue	1,055	28,679
Current portion of noncurrent liabilities	126,534	114,551
Total Current Liabilities	296,140	162,445
Noncurrent Liabilities:		
Notes payable, net of current portion	4,598,000	4,722,000
Compensated absences	10,137	51,257
Net pension obligation	688,430	704,360
Net OPEB obligation	88,157	91,597
Total Noncurrent Liabilities	5,384,724	5,569,214
TOTAL LIABILITIES	5,680,864	5,731,659
DEFERRED INFLOWS OF RESOURCES		
Other post-employment benefits (OPEB)	3,374	
Pensions	78,742	53,163
TOTAL DEFERRED INFLOWS	82,116	53,163
NET POSITION		
Net investment in capital assets	456,908	438,946
Unrestricted	1,610,971	1,117,630
TOTAL NET POSITION	2,067,879	1,556,576
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 7,830,859	\$ 7,341,398

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Water sales	\$ 1,951,136	\$ 1,396,247
Other Water Sales	139,032	7,475
TOTAL OPERATING REVENUES	<u>2,090,168</u>	<u>1,403,722</u>
OPERATING EXPENSES		
General and administrative	651,676	657,475
Transmission and distribution	265,398	241,341
Pumping	111,090	96,279
Treatment		4,488
Water purchases	5,738	5,535
Depreciation	212,081	214,429
Pension expense adjustment	43,582	52,350
Other post-employment benefits (OPEB)	24,016	25,000
TOTAL OPERATING EXPENSES	<u>1,313,581</u>	<u>1,296,897</u>
NET INCOME FROM OPERATIONS	776,587	106,825
NON-OPERATING (EXPENSES) REVENUES		
Investment income earned	16,410	9,693
Reimbursements	4,946	
Interest expense	<u>(286,640)</u>	<u>(263,038)</u>
TOTAL NON-OPERATING (EXPENSES) REVENUES	<u>(265,284)</u>	<u>(253,345)</u>
CHANGE IN NET POSITION	511,303	(146,520)
Net position, beginning of year, as previously reported	<u>1,556,576</u>	<u>1,703,096</u>
NET POSITION AT END OF YEAR	<u>\$ 2,067,879</u>	<u>\$ 1,556,576</u>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,967,557	\$ 1,409,350
Cash payments to suppliers for goods and services	(664,734)	(448,003)
Cash payments to employees for services	(276,159)	(573,340)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,026,664</u>	<u>388,007</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Reimbursements received	<u>4,946</u>	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>4,946</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and construction of capital assets	(125,043)	(11,278)
Principal paid on long-term debt		(105,000)
Interest paid on long-term debt	(260,330)	(264,875)
Restricted cash used for bond advance refunding		(613,753)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(385,373)</u>	<u>(994,906)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>14,626</u>	<u>8,102</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>14,626</u>	<u>8,102</u>
	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(598,797)
Cash and cash equivalents at beginning of year	<u>1,305,872</u>	<u>1,904,669</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,966,735</u>	<u>\$ 1,305,872</u>

Continued

DEL PASO MANOR WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents - financial statement classification		
Cash and cash equivalents	\$ 694,273	\$ 662,554
Investments	<u>1,157,911</u>	<u>643,318</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,852,184</u>	<u>\$ 1,305,872</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 776,587	\$ 106,825
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	212,081	214,429
(Increase) Decrease in:		
Accounts receivable	(94,987)	(851)
Prepaid expense	7,656	(1,502)
Deferred outflows	32,618	
Accounts payable	100,958	2,429
Accrued expenses and other liabilities	48,378	
Unearned revenue	(27,624)	
Customer deposits		6,479
Compensated absences	(38,586)	7,848
Net pension obligation	(15,930)	
Net OPEB obligation	(3,440)	52,350
Deferred inflows	<u>28,953</u>	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,026,664</u>	<u>\$ 388,007</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amortization of deferred amortization on refunding	\$ 26,310	

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

DEL PASO MANOR WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019 and 2018

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. The accompanying basic financial statements present the District.

Basis of Presentation – Fund Accounting: 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 that 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.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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 restricted and unrestricted investments in money market mutual funds and LAIF.

Restricted Assets: Certain proceeds of the District's long-term debt are classified as restricted investments on the balance sheet because their use is limited by applicable debt covenants. The "reserve" account is used to report resources set aside to make up for potential future deficiencies in the Certificates of Participation debt service. The District also had unspent facility fees classified as restricted cash and cash equivalents.

Estimated Insurance Liabilities: The District maintains a commercial package policy that provides limits of liability of \$5,000,000 per occurrence, annually.

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.

DEL PASO MANOR WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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 \$212,081 and \$214,429 for the years ended June 30, 2019 and 2018, 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.

Reclassifications: Certain amounts in 2018 have been reclassified to conform to the 2019 financial statement presentation. The reclassification had no effect on total net assets or change in net assets.

New Pronouncements: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying and disclosing fiduciary activities of state and local governments. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements of the government. Four fiduciary funds should be reported under this statement: Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds. This Statement is effective for periods beginning after December 15, 2018.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to government financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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

financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement were implemented for the year ended June 30, 2019.

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

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND CASH EQUIVALENTS

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

	2019	2018
Cash and cash equivalents	\$ 694,273	\$ 662,554
Investments	1,157,911	643,318
Total cash and cash equivalents	<u>\$ 1,852,184</u>	<u>\$ 1,305,872</u>

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

	2019	2018
Cash on hand	\$ 300	\$ 300
Deposits with financial institutions	693,859	662,175
Total cash	<u>694,159</u>	<u>662,475</u>
Restricted investments	114	79
Investments in Local Agency Investment Fund (LAIF)	1,157,911	643,318
Total investments	<u>1,158,025</u>	<u>643,397</u>
Total cash and cash equivalents	<u>\$ 1,852,184</u>	<u>\$ 1,305,872</u>

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

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

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.

During the year ended June 30, 2019 and 2018, 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

*Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	None	None	None
Certificates of Deposits	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	N/A	None	None
LAIF	N/A	None	None

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

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

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

At June 30, 2019, the carrying amount of the District's deposits 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. At June 30, 2018, the carrying amount of the District's deposits were \$662,175 and the balances in financial institutions were \$706,758 and of this amount \$456,758 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 the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, 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 is \$106,046,486,872 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, 2019, these investments matured in an average of 173 days.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 and 2018 is as follows:

	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
	<u>46,520</u>	<u>20,650</u>			<u>67,170</u>
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
	<u>7,085,194</u>	<u>104,393</u>	<u>(3,367)</u>		<u>7,186,220</u>
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)
	<u>(1,865,768)</u>	<u>(212,081)</u>	<u>3,367</u>		<u>(2,074,482)</u>
Net capital assets being depreciated	<u>5,219,426</u>	<u>(107,688)</u>			<u>5,111,738</u>
Net capital assets	<u>\$ 5,265,946</u>	<u>\$ (87,038)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,178,908</u>

	Balance July 1, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 8,505				\$ 8,505
Construction in progress	31,171	\$ 6,844			38,015
	<u>39,676</u>	<u>6,844</u>			<u>46,520</u>
Capital assets being depreciated:					
Source of supply	2,459,603				2,459,603
Pumping plant	1,036,177				1,036,177
Transmission and distribution	2,312,578				2,312,578
General plant and administration	1,272,402	4,434			1,276,836
	<u>7,080,760</u>	<u>4,434</u>			<u>7,085,194</u>
Less accumulated depreciation:					
Source of supply	(352,530)	(54,530)			(407,060)
Pumping plant	(161,202)	(32,998)			(194,200)
Transmission and distribution	(773,152)	(60,019)			(833,171)
General plant and administration	(364,455)	(66,882)			(431,337)
	<u>(1,651,339)</u>	<u>(214,429)</u>			<u>(1,865,768)</u>
Net capital assets being depreciated	<u>5,429,421</u>	<u>(209,995)</u>			<u>5,219,426</u>
Net capital assets	<u>\$ 5,469,097</u>	<u>\$ (203,151)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,265,946</u>

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE D – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the year ended June 30, 2019 and 2018 was as follows:

	Balance July 1, 2018	Additions	(Reductions)	Balance June 30, 2019	Due Within One Year
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 obligation	704,360		(15,930)	688,430	
Net OPEB obligation	91,597		(3,440)	88,157	
	<u>\$ 5,683,765</u>	<u>\$ 11,420</u>	<u>\$ (183,927)</u>	<u>\$ 5,511,258</u>	<u>\$ 126,534</u>

	Balance July 1, 2017	Additions	(Reductions)	Balance June 30, 2018	Due Within One Year
Certificates of Participation	\$ 5,055,000		\$ (5,055,000)		
Installment loan		\$ 4,827,000		\$ 4,827,000	\$ 105,000
Compensated absences	52,960	26,950	(19,102)	60,808	9,551
Net pension liability	587,867	116,493		704,360	
Net OPEB obligation		91,597		91,597	
	<u>\$ 5,695,827</u>	<u>\$ 5,062,040</u>	<u>\$ (5,074,102)</u>	<u>\$ 5,683,765</u>	<u>\$ 114,551</u>

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

2010 Revenue Certificates of Participation: In August 2010, the District issued the 2010 Revenue Certificates of Participation (2010 COPs) in the amount of \$5,615,000. The 2010 COPs were issued to fund the replacement of two wells, installment of new distribution mains, and the upgrade of electrical systems at existing sites. These certificates of participation were advance refunded, and the proceeds of the advance refunding installment loan were placed in escrow and will be used to call the refunded certificates of participation with final payment on July 1, 2020. As of June 30, 2018, the certificates of participation were refunded with the 2018 installment loan.

2018 Advance Refunding: In June 2018, the District issued an installment loan in the amount of \$4,827,000 to advance refund the previously outstanding 2010 COPs. The 2018 Installment Loan is payable in semiannual installments including interest of 5.150% 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.

The refunding resulted in deferred amount on refunding of \$359,234, which is being amortized over the remaining life of the refunded debt. Amortization expense totaled \$26,310 for the year ended June 30, 2019, and is included in interest expense. The deferred amount on refunding was \$332,924 and \$359,234 at June 30, 2019 and 2018, respectively.

The 2018 Installment Loan is 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 under the

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE D – LONG-TERM LIABILITIES (Continued)

Installment Purchase Contract. The Installment Purchase Contract requires 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:

	<u>Principal</u>	<u>Interest</u>
For the Year Ended June 30:		
2020	\$ 124,000	\$ 243,183
2021	132,000	236,797
2022	143,000	229,999
2023	149,000	222,635
2024	159,000	214,961
2025-2029	920,000	943,789
2030-2034	1,189,000	681,036
2035-2039	1,547,000	339,230
2040-2041	359,000	18,489
	<u>\$ 4,722,000</u>	<u>\$ 3,130,119</u>

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 Installment Loan were used to refund the previously outstanding 2010 Revenue Certificates of Participation. The 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 \$7,852,119 and \$8,217,448 at June 30, 2019 and 2018. Total principal and interest paid was \$365,330 and the total water net revenues were \$461,337 for the year ended June 30, 2019. There were no payments made on principal and interest for the year ended June 30, 2018. At June 30, 2019, the District’s net revenues were 126% of debt service payments.

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 PEPRAs 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.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE E – PENSION PLANS (Continued)

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, 2019 and 2018 are summarized as follows:

	Classic Miscellaneous Plan (Prior to January 1, 2013)	PEPRA Miscellaneous Plan (On or after January 1, 2013)
Hire date		
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 - 2017/18	7.00%	6.25%
Required employer contribution rates - 2017/18	8.92%	6.25%
Required employee contribution rates - 2018/19	7.00%	-
Required employer contribution rates - 2018/19	9.409%	6.842%

In addition to the contribution rates above, the District was also required to make payments of \$36,572 and \$28,303 toward its unfunded actuarial liability during the years ended June 30, 2019 and 2018, 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 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 \$67,069 and \$58,501 for the years ended June 30, 2019 and 2018, respectively.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE E – PENSION PLANS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:
As of June 30, 2019 and 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$688,430 and \$704,360, 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, 2019 and 2018 is measured as of June 30, 2018 and 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016 rolled forward to June 30, 2018 and 2017 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, 2019 and 2018 was as follows:

Proportion - June 30, 2017	0.01727%
Proportion - June 30, 2018	<u>0.01784%</u>
Change - Increase (Decrease)	0.00057%
Proportion - June 30, 2018	0.01784%
Proportion - June 30, 2019	<u>0.01827%</u>
Change - Increase (Decrease)	0.00043%

For the year ended June 30, 2019 and 2018, the District had pension expense of \$48,847 and \$110,851 at June 30, 2019 and 2018, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 67,069		\$ 58,501	
Differences between actual and expected experience	26,414	\$ (8,988)		
Changes in assumptions	78,484	(19,236)	110,312	
Change in employer's proportion	19,332	(2,513)	32,815	
Differences between the employer's contribution and the employer's proportionate share of contributions		(48,005)		\$ (40,337)
Net differences between projected and actual earnings on plan investments	<u>3,403</u>		<u>27,005</u>	<u>(12,826)</u>
Total	<u>\$ 194,702</u>	<u>\$ (78,742)</u>	<u>\$ 228,633</u>	<u>\$ (53,163)</u>

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE E – PENSION PLANS (Continued)

The \$67,069 and \$58,501 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, 2020 and 2019, respectively. Other amounts reported as net deferred outflow of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended	
June 30	
2020	\$ 51,870
2021	26,956
2022	(23,743)
2023	<u>(6,192)</u>
	<u>\$ 48,891</u>

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

	June 30, 2019	June 30, 2018
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.15% (2)	7.15% (2)
Mortality	Derived using CalPERS Membership Data for all Funds	Derived using CalPERS Membership Data for all Funds

(1) Depending on entry age and service

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

The mortality table used was developed based on CalPERS-specific data. The table for June 30, 2019 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). The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2018 were based on the 2010 CalPERS experience study for the period from 1997 to 2007. 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, 2019 and 2018. 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

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE E – PENSION PLANS (Continued)

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.

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.

Asset Class	2019			2018		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(c)	Real Return Years 11+(d)
Global Equity	50.0%	4.80%	5.98%	47.0%	4.90%	5.38%
Global Fixed Income	28.0%	1.00%	2.62%	19.0%	0.80%	2.27%
Inflation Sensitive	0.0%	0.77%	1.81%	6.0%	0.60%	1.39%
Private Equity	8.0%	6.30%	7.23%	12.0%	6.60%	6.63%
Real Estate	13.0%	3.75%	4.93%	11.0%	2.80%	5.21%
Infrastructure and Forestland	0.0%	0.00%	0.00%	3.0%	3.90%	5.36%
Liquidity	1.0%	0.00%	-0.92%	2.0%	-0.40%	-0.9%
Total	<u>100.0%</u>			<u>100.0%</u>		

- (a) An expected inflation of 2.00% used for this period.
- (b) An expected inflation of 2.92% used for this period.
- (c) An expected inflation of 2.50% used for this period.
- (d) An expected inflation of 3.00% used for this period.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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:

	2019	2018
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 1,144,562	\$ 1,097,994
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 688,430	\$ 704,360
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 336,666	\$ 378,345

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.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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, 2017 valuation date, the following current and former employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	<u>4</u>
Total	<u><u>5</u></u>

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. During the fiscal year ended June 30, 2019 and 2018, the District's contributions were \$25,000 and \$23,112, respectively.

Net OPEB Liability: The District's net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and 2016.

Actuarial Assumptions: The total OPEB liability in the June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	<u>2019</u>	<u>2018</u>
Valuation date	June 30, 2017	June 30, 2017
Measurement date	June 30, 2018	June 30, 2017
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 2014 CalPERS tables. The pre-retirement turnover information was developed based on the 2009 CalPERS Turnover for Miscellaneous Employees table created by CalPERS.

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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:

Asset Class	Percentage of Portfolio	Assumed Gross Return
Global Equity	57.0%	4.82%
Fixed Income	27.0%	1.47%
Tresasury Inflation Protected Securities	5.0%	1.29%
Real Estate Investment Trusts	8.0%	3.76%
Commodities	3.0%	0.84%
	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, 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

DEL PASO MANOR WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 551,319	\$ 446,306	\$ 105,013
Changes in the year:			
Service cost	18,145		18,145
Interest	38,939		38,939
Contributions - employer		23,112	(23,112)
Net investment income		47,627	(47,627)
Administrative expenses		(239)	239
Benefit payments	(7,742)	(7,742)	
Net changes	<u>49,342</u>	<u>62,758</u>	<u>(13,416)</u>
Balance at June 30, 2018 (measurement date June 30, 2017)	<u>\$ 600,661</u>	<u>\$ 509,064</u>	<u>\$ 91,597</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: 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:

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

	2018		
	Current		
	1% Decrease 6%	Discount Rate 7%	1% Increase 8%
Net OPEB liability	\$ 169,435	\$ 91,597	\$ 26,609

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

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

DEL PASO MANOR WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (Continued)

	2018		
	Current Healthcare Cost		
	1% Decrease (5.7% Medical decreasing to 4%)	Trend Rates (6.7% Medical decreasing to 5%)	1% Increase (7.7% Medical decreasing to 6%)
	\$	\$	\$
Net OPEB liability	15,007	91,597	180,708

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019 and 2018 the District recognized OPEB expense of \$24,016 and \$32,808, respectively. At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 25,000		\$ 25,000	
Difference between expected and actual experience	1,313			
Net differences between projected and actual earnings on plan investments		\$ (3,374)		
Total	\$ 26,313	\$ (3,374)	\$ 25,000	\$ -

The \$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 following 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	
2020	\$ (318)
2021	(318)
2022	(583)
2023	(842)
	\$ (2,061)

DEL PASO MANOR WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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.

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 50,000
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

DEL PASO MANOR WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

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 \$23,545 and \$22,885 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments are as follows:

Year Ended June 30	
2020	\$ 24,240
2021	<u>10,525</u>
	<u>\$ 34,765</u>

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, 2019.

NOTE J – SUBSEQUENT EVENTS

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.

The District entered into a contract for a new billing system in May 2020 for a total one-time cost of \$9,500 and a monthly subscription fee of \$720.

On June 1, 2020, the District entered into an agreement to refinance the 2018 Installment Purchase Contract at an interest rate of 3.25% and a principal amount of \$4,694,000. The debt will be repaid by July 1, 2040. The agreement pledges net revenues to repay the debt.

REQUIRED SUPPLEMENTARY INFORMATION

DEL PASO MANOR WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.01827%	0.01787%	0.01727%	0.01607%	0.01719%
Proportionate share of the net pension liability	\$ 688,430	\$ 704,360	\$ 587,867	\$ 440,960	\$ 420,396
Covered payroll - measurement period	\$ 338,501	\$ 323,644	\$ 312,320	\$ 303,257	\$ 295,442
Proportionate share of the net pension liability as a percentage of covered payroll	203.38%	217.63%	188.23%	145.41%	142.29%
Plan fiduciary net position as a percentage of the total pension liability	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**

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

Notes to Schedule:

Valuation date: June 30, 2016 June 30, 2015 June 30, 2014 June 30, 2013 June 30, 2012

Methods and assumptions used to determine contribution rates:

	Market Value	Market Value	Market Value	Market Value	15-year smoothed market
Valuation cost method					
Amortization method					
Remaining amortization period					
Asset valuation method					
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases					
Payroll growth	3.00%	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.375%	7.50%	7.50%	7.50%	7.50%
Retirement age	(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, 2019

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

Measurement Period	2019	2018
Total OPEB liability:		
Service cost	\$ 18,644	\$ 18,145
Interest	42,424	38,939
Benefit payments	(7,860)	(7,742)
Net change in total OPEB liability	53,208	49,342
Total OPEB liability - beginning	600,661	551,319
Total OPEB liability - ending (a)	\$ 653,869	\$ 600,661
Plan fiduciary net position:		
Contributions - employer	\$ 25,000	\$ 23,112
Net investment income	40,420	47,627
Benefit payments	(7,860)	(7,742)
Administrative expenses	(912)	(239)
Net change in plan fiduciary net position	56,648	62,758
Plan fiduciary net position - beginning	509,064	446,306
Plan fiduciary net position - ending (b)	\$ 565,712	\$ 509,064
Net OPEB liability - ending (a)-(b)	\$ 88,157	\$ 91,597
Plan fiduciary net position as a percentage of the total OPEB liability	86.52%	84.75%
Covered-employee payroll - measurement period	\$ 328,152	\$ 327,053
Net OPEB liability as percentage of covered-employee payroll	26.86%	28.01%
Notes to schedule:		
Valuation date	June 30, 2017	June 30, 2017
Measurement period - fiscal year ended	June 30, 2018	June 30, 2017

Benefit changes. None.

Changes in assumptions. 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, 2019

SCHEDULE OF CONTRIBUTIONS TO THE OPEB PLAN (UNAUDITED)

	2019	2018
Statutorily required contribution - employer fiscal year	\$ 7,860	\$ 7,742
Contributions in relation to the actuarially determined contributions	(7,860)	(7,742)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll - employer fiscal year	\$ 328,152	\$ 327,053
Contributions as a percentage of covered-employee payroll	2.40%	2.37%

Notes to Schedule:

Valuation date	June 30, 2017	June 30, 2017
Measurement period - fiscal year ended	June 30, 2018	June 30, 2017

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, 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	<u>948,551</u>	<u>1,149,461</u>	<u>2,098,012</u>
Capital Assets:			
Nondepreciable	67,170		67,170
Depreciable, net of accumulated depreciation	5,111,738		5,111,738
Total Capital Assets, Net	<u>5,178,908</u>	<u>-</u>	<u>5,178,908</u>
TOTAL ASSETS	<u>6,127,459</u>	<u>1,149,461</u>	<u>7,276,920</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	332,924		332,924
Other postemployment benefits (OPEB)	26,313		26,313
Pensions	194,702		194,702
TOTAL DEFERRED OUTFLOWS	<u>553,939</u>	<u>-</u>	<u>553,939</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 6,681,398</u>	<u>\$ 1,149,461</u>	<u>\$ 7,830,859</u>

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	<u>274,215</u>	<u>21,925</u>	<u>296,140</u>
Noncurrent Liabilities:			
Notes payable, net of current portion	4,598,000		4,598,000
Compensated absences	10,137		10,137
Net pension obligation	688,430		688,430
Net OPEB obligation	88,157		88,157
Total Noncurrent Liabilities	<u>5,384,724</u>	<u>-</u>	<u>5,384,724</u>
TOTAL LIABILITIES	<u>5,658,939</u>	<u>21,925</u>	<u>5,680,864</u>
DEFERRED INFLOWS OF RESOURCES			
Other post-employment benefits (OPEB)	3,374		3,374
Pensions	78,742		78,742
TOTAL DEFERRED INFLOWS	<u>82,116</u>	<u>-</u>	<u>82,116</u>
NET POSITION			
Net investment in capital assets	456,908		456,908
Unrestricted	483,435	1,127,536	1,610,971
TOTAL NET POSITION	<u>940,343</u>	<u>1,127,536</u>	<u>2,067,879</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 6,681,398</u>	<u>\$ 1,149,461</u>	<u>\$ 7,830,859</u>

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

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF NET POSITION

June 30, 2018

ASSETS	Operating Fund	Maintenance Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Current Assets:			
Cash and cash equivalents	\$ 158,519	\$ 504,035	\$ 662,554
Investments	153,917	489,401	643,318
Accounts receivable			
Current services	86,593	\$ 43,882	130,475
Accrued interest receivable	3,053		3,053
Prepaid expenses	23,185		23,185
Total Current Assets	<u>425,267</u>	<u>1,037,318</u>	<u>1,462,585</u>
Capital Assets:			
Nondepreciable	46,520		46,520
Depreciable, net of accumulated depreciation	5,219,426		5,219,426
Total Capital Assets, Net	<u>5,265,946</u>		<u>5,265,946</u>
TOTAL ASSETS	<u>5,691,213</u>	<u>1,037,318</u>	<u>6,728,531</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	359,234		359,234
Other postemployment benefits (OPEB)	25,000		25,000
Pensions	228,633		228,633
TOTAL DEFERRED OUTFLOWS	<u>612,867</u>		<u>612,867</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 6,304,080</u>	<u>\$ 1,037,318</u>	<u>\$ 7,341,398</u>

Continued

DEL PASO MANOR WATER DISTRICT

COMBINING STATEMENT OF NET POSITION (Continued)

June 30, 2018

LIABILITIES	Operating Fund	Maintenance Fund	Total
Current Liabilities:			
Accounts payable	\$ 19,215		\$ 19,215
Unearned revenue	14,340	\$ 14,339	28,679
Current portion of noncurrent liabilities	114,551		114,551
Total Current Liabilities	<u>148,106</u>	<u>14,339</u>	<u>162,445</u>
Noncurrent Liabilities:			
Notes payable, net of current portion	4,722,000		4,722,000
Compensated absences	51,257		51,257
Net pension obligation	704,360		704,360
Net OPEB obligation	91,597		91,597
Total Noncurrent Liabilities	<u>5,569,214</u>		<u>5,569,214</u>
TOTAL LIABILITIES	<u>5,717,320</u>	<u>14,339</u>	<u>5,731,659</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>53,163</u>		<u>53,163</u>
TOTAL DEFERRED INFLOWS	<u>53,163</u>		<u>53,163</u>
NET POSITION			
Net investment in capital assets	438,946		438,946
Unrestricted	<u>94,651</u>	<u>1,022,979</u>	<u>1,117,630</u>
TOTAL NET POSITION	<u>533,597</u>	<u>1,022,979</u>	<u>1,556,576</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 6,304,080</u>	<u>\$ 1,037,318</u>	<u>\$ 7,341,398</u>

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	<u>1,495,239</u>	<u>594,929</u>	<u>2,090,168</u>
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	<u>1,313,581</u>	<u>-</u>	<u>1,313,581</u>
NET INCOME FROM OPERATIONS	181,658	594,929	776,587
NON-OPERATING (EXPENSES) REVENUES			
Investment income earned	16,410		16,410
Reimbursements	4,946		4,946
Interest expense		(286,640)	(286,640)
TOTAL NON-OPERATING (EXPENSES) REVENUES	<u>21,356</u>	<u>(286,640)</u>	<u>(265,284)</u>
TRANSFERS			
Transfers in	203,732		203,732
Transfers out		(203,732)	(203,732)
TOTAL OPERATING TRANSFERS	<u>203,732</u>	<u>(203,732)</u>	<u>-</u>
CHANGE IN NET POSITION	406,746	104,557	511,303
Net position, beginning of year	<u>533,597</u>	<u>1,022,979</u>	<u>1,556,576</u>
NET POSITION AT END OF YEAR	<u>\$ 940,343</u>	<u>\$ 1,127,536</u>	<u>\$ 2,067,879</u>

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, 2018

	Operating Fund	Maintenance Fund	Total
OPERATING REVENUES			
Water sales	\$ 808,261		\$ 808,261
Other Water Sales		\$ 595,461	595,461
TOTAL OPERATING REVENUES	<u>808,261</u>	<u>595,461</u>	<u>1,403,722</u>
OPERATING EXPENSES			
General and administrative	657,475		657,475
Transmission and distribution	241,341		241,341
Pumping	96,279		96,279
Treatment	4,488		4,488
Water purchases	5,535		5,535
Depreciation	214,429		214,429
Pension expense adjustment	52,350		52,350
Other post-employment benefits (OPEB)	25,000		25,000
TOTAL OPERATING EXPENSES	<u>1,296,897</u>	<u>-</u>	<u>1,296,897</u>
NET INCOME FROM OPERATIONS	(488,636)	595,461	106,825
NON-OPERATING (EXPENSES) REVENUES			
Investment income earned	9,693		9,693
Interest expense		(263,038)	(263,038)
TOTAL NON-OPERATING (EXPENSES) REVENUES	<u>9,693</u>	<u>(263,038)</u>	<u>(253,345)</u>
TRANSFERS			
Transfers in	111,843		111,843
Transfers out		(111,843)	(111,843)
TOTAL OPERATING TRANSFERS	<u>111,843</u>	<u>(111,843)</u>	<u>-</u>
CHANGE IN NET POSITION	(367,100)	220,580	(146,520)
Net position, beginning of year, as previously reported	900,697	802,399	1,703,096
Restatement for change in accounting principle -Note N			
Net position, beginning of year, as restated			
NET POSITION AT END OF YEAR	<u>\$ 533,597</u>	<u>\$ 1,022,979</u>	<u>\$ 1,556,576</u>

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

COMPLIANCE REPORTS

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 2, 2020.

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 2019-001 to 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

June 2, 2020

DEL PASO MANOR WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

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

Condition: The design and implementation of internal controls is crucial to the effective operation of District and for accurate financial reporting. If proper separation of duties cannot be accomplished, then maintaining an effective review and oversight function are important to establishing an effective internal control system. Due to the small staff size, it is difficult to achieve a proper segregation of duties. The following areas were noted:

- The General Manager has the ability to set up new employees in the payroll system, process payroll and also make adjustments to payroll accounts in the general ledger. If it is not possible to segregate these duties, then the payroll registers should be reviewed by a Board member or someone that does not have access to the payroll system.
- For most of the fiscal year, the General Manager processed customer payments, recorded payments in the general ledger, made bank deposits, performed bank reconciliations, and wrote off customer accounts, with no review of work performed. Cash handling and recording functions should be separated to reduce the risk of fraud, and if duties cannot be segregated, then work performed should be reviewed to reduce the risk of error or fraud. The office manager took over most these duties after the departure of the previous General Manager except that bank reconciliations are being performed by a consultant, once a replacement General Manager is in place, this person should review the office managers work to mitigate the segregation of duties issues.
- The General Manager had the ability to purchase items, approve invoices for payment, generate checks, record checks in the general ledger, sign checks (although a second signature is required), mail checks and prepare bank reconciliations. These duties should be segregated to ensure proper segregation of duties, or reviews should be performed by someone that does not have access to the accounting system.
- After the General Manager left, the Office Manager began generating checks for payment. We noted that after checks are signed, they are returned to the office manager that generates the check. To ensure proper segregation of duties, these checks should be returned to someone that does not have access to the accounts payable module in the accounting system. We also noted no sign-off or indication of review of check runs prior to checks being generated. Check runs should be reviewed by the General Manager prior to checks being generated.
- We were unable to obtain evidence that accounts receivable reflected in the utility billing system was reconciled to the general ledger throughout the year or at year-end. The District was unable to provide a listing of accounts receivable from the utility billing system as of June 30, 2019, so we were unable to determine the aging of the receivable balances and to compare the utility billing system outstanding balances to the general ledger. We were also unable to determine customers with credit balances that should have been reclassified to deferred revenue. The District needs to ensure that it works with its software company to determine how this report can be generated and compare this report to the general ledger on a monthly basis by someone independent of the billing and payment processing.
- Adjustments and write offs to customer accounts are done by the Office Manager, or General Manager. However, there is no written policy establishing limits for write-offs to be made by the

DEL PASO MANOR WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended June 30, 2019

Office Manager or General Manager and levels at which write-offs need to be approved by the Board. A policy should be developed to place an authorization limit on write-offs and adjustments for the Office Manager that requires large adjustments to be approved by the General Manager and/or the Board. A record of adjustments should be maintained and initialed to document approval.

- Bank reconciliations are being performed, but are not being reviewed. The bank reconciliations should be reviewed by someone not having access to the general ledger. This review should be documented by initials and date on the reconciliation to show review is done timely.

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: We recommend 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.

District's Response: Once the permanent General Manager is hired, review procedures will be established so that the General Manager reviews the Office Managers work, in terms of cash receipt/payment processing, vendor invoice processing and payroll processing. Source documents such as deposit slips, vendor invoices, and the payroll registers will have initials to indicate who prepared the documents and who reviewed/approved the documents.

Policies will be established to indicate who has the authority and level of authority to initiate and approve transactions. Vendor invoices will be initialed to indicate approval of the transactions and the account coding of the transactions. As the general manager will have check signing authority, one board member will also continue to approve and sign checks for payment. As board members sign checks, they will also be reviewing vendor invoices presented for payment.

Towards the end of fiscal 2020, the district upgraded its utility billing system. This new system will be able to identify all customer account balances at a point in time (i.e. end of fiscal year). As part of the accounting process, a reconciliation will be performed with the office manager and outside accounting consultant to ensure the general ledger agrees with the billing system. A policy will be established to determine who has the authority to write off customer accounts, the level of authority, and final approval of the board in closed sessions.

The districts outside account independently performs the accounting function from using and reviewing source documents. This process includes reviewing vendor invoices, ensuring that invoices are in the name of the district and reviewing the bank statements. The outside accountant also performs the monthly bank reconciliations, and reviews checks/check stubs to make sure they are payable to the name on the vendor invoices. Any irregular or questionable transactions will be reported to the appropriate level of management or the board.

DEL PASO MANOR WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended June 30, 2019

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.
- Develop a capital asset policy that includes a threshold for capitalizing items and useful lives to depreciate capital assets.
- Require Board approval of disposals.

District’s Response: A capital asset policy and a maintenance fund policy will be established indicating the types of purchases that will be capitalized, capitalization thresholds, useful lives and depreciation methods. 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; and any proposed disposals of capitalized assets will require board approval.

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.

DEL PASO MANOR WATER DISTRICT

SCHEDULE OF PRIOR FINDINGS

For the Year Ended June 30, 2019

FS 2018-001: Segregation of Duties

The prior auditor noted, due to the small size of the District and limited number of personnel involved in the accounting function, the District had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. The prior auditor indicated they have also noted this comment in previous audits.

Status: See Finding 2019-001 for current status.

FS 2018-002

The District relies on the external auditor to ensure its financial statements are in accordance with GAAP. In addition, the District relies on the external auditor to ensure that all necessary disclosures are included in the notes to the financial statements. The District does not employ a staff member with the necessary knowledge and training to prepare governmental financial statements. In accordance with Statement of Auditing Standards No. 122c external auditors cannot be part of an entity's internal controls over preparation of the financial statements and are prohibited from auditing their own work, which would impair their independence.

Status: The District hired an external qualified accountant to prepare the GAAP closing entries for the financial statements.

ITEM #3

Budget to Actuals

**Del Paso Manor Water District
Expense Budget To Actual Comparison
July 1, 2019 to May 31, 2020**

Notes

	Year to Date July 1, 2019 to May 31, 2020	Budget	Percent of Budget	
Employee Related				
Management Salaries	44,572	100,000	44.57%	
Staff Salaries	116,057	190,000	61.08%	
Director Fees	24,300	20,000	121.50%	
Payroll Taxes	14,030	25,000	56.12%	
PERS Retirement	59,044	80,000	73.81%	
Health	76,938	136,500	56.36%	
OPEB	-	45,000	0.00%	
Total Employee Related	334,941	596,500	56.15%	
Administration				
Insurance	17,915	15,000	119.43%	
Office Expense	81,140	80,000	101.43%	1
Audit Fees	700	11,900	5.88%	
Legal Fees	110,674	40,000	276.69%	
Employee Recruitment	-	500	0.00%	
Miscellaneous	3,728	500	745.60%	
Professional Administration Fees	47,847	15,000	318.98%	3
Bank Charges	1,200	300	400.00%	
Professional Dues	34,833	40,000	87.08%	
Professional Meetings	-	10,000	0.00%	
Cert/Continuing Education	-	3,000	0.00%	
Total Administration	298,037	216,200	137.85%	
Operations				
Conservation	-	3,350	0.00%	
Power	51,589	103,000	50.09%	
Repairs & Maintenance	173,454	80,000	216.82%	2
Lab Fees	13,178	11,500	114.59%	
Engineering/Consulting Fees	-	90,000	0.00%	
City Water	2,914	5,900	49.39%	
Total Operating	241,135	293,750	82.09%	
Total Expenses	874,113	1,106,450	79.00%	

Note 1: Included in Office Expense is the purchase of four HP office computers and maintenance subscription services for \$7,801.

Note 2: Included in Repairs & Maintenance is a \$39,905 expense to Odell's Pump and Motor Service in July 2019, expenses of \$33,011 to Sacramento Suburban Water District, and \$9,338 for the roof repair at Lusk drive.

Note 3: Included in Professional Administrative Fees is a \$9,661 expense to the State Water Resource Control Board in December 2019.

Total revenues recorded through May 2020 is \$1,912,323.10

Interest and miscellaneous income recorded through May 2020 is \$19,938.

Interest expense paid through May 2020 is \$242,683.

Amounts above are not audited

ITEM #4

LAIF Update

**Del Paso Manor Water District
Fiscal 2020 L.A.I.F Activity
July 1, 2019 to June 30, 2020**

Beginning balance, July 1, 2019	\$1,157,910.84
July 2019 quarterly interest payment	4,836.70
October 2019 quarterly interest payment	7,164.57
January 2020 quarterly interest payment	6,720.82
April 2020 quarterly interest payment	<u>5,921.78</u>
Ending balance, June 30, 2020	<u><u>\$1,182,554.71</u></u>

***An interest payment for the quarter ending June 30, 2020 is expected in July 2020.

ITEM #5

DPMWD Finance Policies

POLICY NUMBER 2435: Capital Asset Policy

Purpose: The purpose of this policy is to establish guidance in identifying, capitalizing, depreciating, and accounting for District capital assets.

Definitions: A capital asset is defined under this Policy as an asset owned by the District that – 1) is acquired for use in District operations, 2) is long-term in nature (i.e., useful life exceeds 1 year), 3) is subject to depreciation, and 4) has a minimum value of \$5,000 (see section 200.20).

2135.1 Policy

The District currently operates with two distinct funding streams; Operations and Maintenance (O&M) and Planned System Maintenance (CIP). Each funding stream has its own budget and line-item on the ratepayers' bi-monthly bill. It is the policy of the District that the following types of assets will be considered Capital Assets of the District. If an asset does not meet the capitalization requirements listed in this policy, then it is to be expensed in the year acquired

2135.2 Capital Assets

The District operations program will be maintained at a level that assures system reliability and efficiency. A well thought out maintenance program will extend the life of the water production and distribution system and in turn reduce infrastructure costs in the long-term. A. Funding to Meet Regulations and Standards - The District will adequately fund costs to meet current industry standards and regulations (e.g. Safe Drinking Water Act, etc.) in the annual budgeting process.

B. Capital Improvement Plan - The District, as part of its routine planning process, will develop a 5-year Water System Master Plan and update it. Further, the District will update its Asset Management Plans.

C. Adopted Capital Plan - The District will undertake all capital improvements approved by the Board annually at budget adoption according to the District's Asset Management Plans.

D. Types of Capital Projects - The District's capital improvement program will consider mandated capital, growth related capital and renewal and replacement capital. Financing of Growth-Related Projects –

E. The financing of growth-related capital projects may be funded from any of the available funding resources of the District. However, to better meet the District's needs, the use of long-term debt to finance growth-related projects will be minimized. When necessary, long-term debt will be issued to allow the District to better match the financing of these facilities to the timing of the customers as they connect to the system.

2135.3 Capital Asset Categories

Capital assets shall be segregated into the following categories: A. Land and Land Improvements with a limited life, such as driveways, walks, fences, landscaping, and parking areas. B. Buildings and Building Improvements, such as HVAC equipment, interior remodeling features, and landscaping. C. Hydrants, pressure modulating facilities, Valves and related appurtenances. D. Transmission and Distribution pipelines. E. Water Storage Facilities. F. Groundwater Wells, Flow Meters, Etc. G. Pumps, Motors and Water Treatment Facilities H. Water Meters and Appurtenances. I. Machinery and Equipment, such as generators, compressors, jackhammers, tools, trimmers, etc. J. Fleet Equipment, such as cars, trucks, trailers and backhoes. K. Office Equipment such as furniture and fixtures. L. Computer Systems, Purchased Software and Telephones. M. Intangible Assets, such

as easements and internally generated computer software. N. SCADA, including location and mapping features.

2135.4 Capitalization Thresholds

Capital assets eligible for capitalization, must have: 1) an estimated useful life of at least two years from the date of acquisition 2) and a minimum value of \$5,000, and 3) Such criteria shall be applied to individual assets and not to groups of assets

2135.5 Impaired Capital Asset Policy

Purpose: The purpose of the Policy is to implement the requirements of Governmental Accounting Standards Board (GASB) Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” (GASB 42).

The District will implement procedures to conform to the requirements of GASB 42.

GASB 42 established accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility (design capacity or capability) has declined significantly and unexpectedly.

Capital Asset Impairment Evaluation: The requirements of GASB 42 only apply to capital assets with material carrying values. If the District has material capital assets that are impaired or potentially impaired, a determination needs to be made as to whether the impairment loss should be reported and disclosed.

POLICY NUMBER 2150: Reserve Policy

2150.1 Purpose: The District shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy.

1) Operations & Maintenance (O&M):

The reserve amount for this fund will be six months of the next years budgeting operating expenses. Currently, it is projected to reach this level in 2022. At that time, the District will review and adjust if necessary.

2) Debt Service/Bond Covenant Reserve:

Recommended funding level is as required by the debt documents. The current debt requires the District to maintain its annual revenues, including reserves, sufficient to cover annual operating expenses and 120% of next year's debt service.

2150.2 Monitoring Reserve Levels: The General Manager, in collaboration with the Board President, shall perform a reserve status analysis annually, to be provided to the Board of Directors' annual deliberation/approval of Budget and Reserve Funds.

Additional information may be provided to the Board of Directors upon the occurrence of the following events: a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy; b) Upon General Manager and/or Board request.

Original: POLICY NUMBER 2100: Accounts Receivable Policy

2100.1 It is the policy of the District that accounts receivable be reviewed monthly, as it is critical to the cash flow of the District and requires continued follow-up and attention.

2100.2 Procedures:

a) The accounts receivable balances are reviewed monthly by the General Manager along with assigned staff. b) Notices are sent for all accounts 30 or more days past their due date. c) Finance charges are assessed as per District Ordinance No. __, as such may be amended from time to time. d) Credit memos are limited to control of the General Manager. e) At month-end closing, an accounts receivable schedule is prepared, reviewed, and reconciled to the General Ledger. The trial balance report is compared to the General Ledger for accuracy. f) An appropriate allowance for bad debt is carried on the Balance Sheet. Every attempt is made for collection. At year-end it is determined if there are uncollectible items. If so, those uncollectible items may be written off by the General Manager upon approval by the Board.

Amended: POLICY NUMBER 2100: Accounts Receivable Policy

2100.1 It is the policy of the District that accounts receivable be reviewed monthly, as it is critical to the cash flow of the District and requires continued follow-up and attention.

2100.2 Procedures:

a) The accounts receivable balances are reviewed monthly by the General Manager along with assigned staff. b) Notices are sent for all accounts 30 or more days past their due date. c) Finance charges are assessed as per District Ordinance No. __, as such may be amended from time to time. d) Credit memos are limited to control of the General Manager. e) At month-end closing, an accounts receivable schedule is prepared, reviewed, and reconciled to the General Ledger. The trial balance report is compared to the General Ledger for accuracy. f) An appropriate allowance for bad debt is carried on the Balance Sheet. Every attempt is made for collection. At year-end it is determined if there are uncollectible items. If so, those uncollectible items may be written off by the General Manager upon approval by the Board.

2100.3 Late Fees: The District may impose a \$30 fee for returned checks and a \$10.00 late fee if the payment is over 60 days late.

ITEM #6

Review Proposed Budget

**Del Paso Manor Water District
Account Listing**

June 4, 2020

Sub Accounts

Fiscal 20/21

Account	Fiscal 20/21 Budget	Sub Accounts Budget	Comments
4101.00 · Residential water sales			
4111.00 · Planned sys main chg			
4151.00 · Other water sales			
4201.00 · Reimbursements - legal rebates			
5102.00 · Payroll & payroll taxes	20,000		Estimated salary of new general manager
5102.00 · Payroll & payroll taxes:5102.05 · Director fees			
5102.00 · Payroll & payroll taxes:5102.10 · Management salaries	120,000		Estimated salary of field supervisor and 1 field crew member
5102.00 · Payroll & payroll taxes:5102.15 · Field salaries	140,000		Estimated salary of office manager
5102.00 · Payroll & payroll taxes:5102.20 · Office manager salary	57,000		About 6.2% of total payroll costs
5102.00 · Payroll & payroll taxes:5102.25 · Office assistant salary	21,000		About 1.45% of total payroll costs
5102.00 · Payroll & payroll taxes:5102.30 · Payroll soc sec			
5102.00 · Payroll & payroll taxes:5102.35 · Payroll medic	5,000		
5121.00 · Conservation	3,350		
5121.00 · Conservation:5121.05 · Conservation patrol			
5121.00 · Conservation:5121.10 · RWA efficiency dues			
5121.00 · Conservation:5121.15 · Customer water audits			
5151.00 · Power	72,400		Previously included in office expense, also includes Sacramento County Utilities
5151.00 · Power:5151.05 · PG&E		2,400	
5151.00 · Power:5151.10 · SMUD		70,000	Estimate based on fiscal 20 activity
5201.00 · R & M	80,000		
5201.00 · R & M:5201.05 · Leak repairs			
5201.00 · R & M:5201.10 · Field equipment			
5201.00 · R & M:5201.15 · Field supplies		3,000	Estimate based on Ace Hardware and Ferguson

Del Paso Manor Water District Account Listing

June 4, 2020

Account	Fiscal 20/21 Budget	Sub Accounts Budget	Comments
5201.00 · R & M:5201.20 · Fuel for vehicles		3,200	Average of about \$263 per month in fiscal 20
5201.00 · R & M:5201.25 · Vehicle repairs & maintenance		500	Minimal vehicle repairs in fiscal 20
5201.00 · R & M:5201.30 · Dump fees			
5201.00 · R & M:5201.35 · Chlorine		5,000	Estimate from Sierra Chemical Company
5201.00 · R & M:5201.40 · Lubrication oil			
5201.00 · R & M:5201.45 · Well repair & maintenance			
5201.00 · R & M:5201.50 · Well rehabilitation			
5201.00 · R & M:5201.55 · Field staff cellular service		3,300	About \$275 per month in fiscal 20
5201.00 · R & M:5201.60 · Tesco service contract (well 8)		3,800	
5201.00 · R & M:5201.65 · Aqua Sierra service contract		1,000	
5211.00 · Cross connection			
5221.00 · Water treatment chem			
5251.00 · Insurance	18,850		
5251.00 · Insurance:5251.05 · Liability		13,000	Based off 2020 estimates
5251.00 · Insurance:5251.10 · Property		2,350	Based off 2020 estimates
5251.00 · Insurance:5251.15 · Workers compensation		3,500	Based off 2020 estimates
5301.00 · Lab fees (H2O testing)		11,500	
5351.00 · Engineering		90,000	
5401.00 · Replacements			
5451.00 · City water		5,900	
5452.00 · Backflow program			
6151.00 · Office expense		80,000	
6151.00 · Office expense:6151.05 · District office lease		26,000	Based off 2020 amounts
6151.00 · Office expense:6151.10 · Phone service		3,100	Based off 2020 amounts
6151.00 · Office expense:6151.15 · Internet provider		2,600	Go Daddy and Streamline
6151.00 · Office expense:6151.20 · Sewer & garbage (Lusk)			
6151.00 · Office expense:6151.25 · Postage		8,500	Mail Rite
6151.00 · Office expense:6151.30 · Printing		2,500	Inland Business Systems

Del Paso Manor Water District
Account Listing

June 4, 2020

Account	Fiscal 20/21 Budget	Sub Accounts Budget	Comments
6151.00 · Office expense:6151.35 · Computers & supplies		3,200	Terrapin Technology
6151.00 · Office expense:6151.40 · Office supplies		4,000	Office Depot
6151.00 · Office expense:6151.45 · Answering service		7,000	Stericycle Communications Solutions
6151.00 · Office expense:6151.50 · Office furniture		1,500	ADP
6151.00 · Office expense:6151.55 · Payroll preparation		2,000	
6151.00 · Office expense:6151.60 · GASB 75 valuations			
6151.00 · Office expense:6151.65 · Office temporary services			
6151.00 · Office expense:6151.70 · Janitorial		1,000	Maria's Cleaning Service
6171.00 · Bank fees	300		
6251.00 · Audit	11,900		
6255.00 · Election related			
6301.00 · Legal	40,000		
6401.00 · Misc	1,000		Miscellaneous and employee
6431.00 · Pension expense GASB 68			Non cash expense
6441.00 · OPEB	45,000		
6451.00 · PERS/retirement	80,000		
6461.00 · Vacation benefit			
6501.00 · Employee healthcare (CalPers)	53,000		Non cash expense
6502.00 · Retiree health benefits	63,000		Estimate based on June 2020 billing
6551.00 · Professional meetings	10,000		Estimate based on June 2020 billing
6551.00 · Professional meetings:6551.05 · Conference fees			
6551.00 · Professional meetings:6551.10 · Travel expenses			
6551.00 · Professional meetings:6551.15 · Lodging			
6551.00 · Professional meetings:6551.20 · Parking			
6551.00 · Professional meetings:6551.25 · Mileage			
6561.00 · Professional dues	41,950		
6561.00 · Professional dues:6561.05 · AQUA		7,200	
6561.00 · Professional dues:6561.10 · AWWA		450	
6561.00 · Professional dues:6561.15 · CSDA		6,100	
6561.00 · Professional dues:6561.20 · CRWA		800	
6561.00 · Professional dues:6561.25 · RWA		9,700	
6561.00 · Professional dues:6561.30 · SGA		17,200	

**Del Paso Manor Water District
Fiscal 20-21 Budget Proposal**

	<u>Proposed FY 20/21 Budget</u>	<u>FY 19/20 Budget</u>	<u>Change From FY 19/20 to 20/21</u>	<u>Comments</u>
Employee Related				
Director fees	20,000	20,000	0	
Management salaries	120,000	100,000	20,000	
Field salaries	140,000	190,000	(50,000)	The budgeted amount of \$190,000 for FY 20 represented staff salaries (field and office)
Office manager salary	57,000		57,000	
Office assistant salary			0	
Payroll soc sec	21,000	25,000	(4,000)	The budgeted amount of \$25,000 for FY 20 was for social security and medicare taxes
Payroll medic	5,000		5,000	
OPEB	45,000	45,000	0	OPEB expense in FY 19 was \$25,000
PERS/retirement	80,000	80,000	0	
Employee healthcare (CalPers)	53,000	136,500	(83,500)	The budgeted amount of \$136,500 for FY 20 was for employees and retirees
Retiree health benefits	63,000		63,000	
	<u>604,000</u>	<u>596,500</u>	<u>7,500</u>	
Administration				
Insurance	18,850	15,000	3,850	Insurance expense through March 20 was \$18,000
Office expense	80,000	80,000	0	
Bank fees	300	300	0	
Audit	11,900	11,900	0	
Election related			0	
Legal	40,000	40,000	0	

Miscellaneous expense includes employee recruitment

Admin fees through April 20 was \$48,000; FY 21 should be higher

Any plans for this category in FY 21

Debt service requirements were not budgeted for in FY 20. Debt service comes out of CIP account

Misc	1,000	1,000	0
Professional meetings	10,000	10,000	0
Professional dues	41,950	40,000	1,950
Professional Admin fees	30,700	15,000	15,700
Certifications/continuing Ed.	3,000	3,000	0
Fixed asset additions/replacements			0
Interest expense & debt service	335,000		335,000
	572,700	216,200	356,500

Operations

Conservation	3,500	3,350	150
Power	72,400	103,000	(30,600)
R & M	80,000	80,000	0
Cross connection			0
Water treatment chem			0
Lab fees (H2O testing)	11,500	11,500	0
Engineering	90,000	90,000	0
Replacements			0
City water	5,900	5,900	0
Backflow program			0
	263,300	293,750	(30,450)
Total Disbursements	1,440,000	1,106,450	333,550

Amounts highlighted in yellow need further consideration

ITEM #7

Late Fee Discussion

Water District Returned Check/Late Fee Survey

Water District	SSWD	CWD	FOWD	SJWD	RLWD	DPMWD
Returned Check Fee	\$22.00	\$34.00	\$25.00	\$35.00	\$20.00	\$30.00
Late Payment Fees	10% previous bill.	\$10/After 60 days	10%	\$23/48 Hour Notice	\$5	N/A