

**VALLEY COUNTY WATER DISTRICT**  
**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**For the Ten Months Ended June 30, 2019**  
**With Comparative Totals for August 31, 2018**



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**VALLEY COUNTY WATER DISTRICT**

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**June 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Valley County Water District  
Baldwin Park, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Valley County Water District (the District) as of and for the ten months ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Board of Directors  
Valley County Water District  
Baldwin Park, California

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2019, and the changes in its financial position and its cash flows for the ten months then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended August 31, 2018 from which it has been derived.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and

Board of Directors  
Valley County Water District  
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reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of the District's internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP  
Glendora, California  
March 30, 2020

**GOVERNING BOARD OF DIRECTORS**

**VALLEY COUNTY WATER DISTRICT**  
**GOVERNING BOARD OF DIRECTORS**  
**June 30, 2019**

As of June 30, 2019, the Governing Board of Directors were as follows:

<u><b>Name</b></u>	<u><b>Office</b></u>
Lenet Pacheco	President
Margarita Vargas	Vice President
Jazmin Lopez	Director
David L. Muse	Director
Javier E. Vargas	Director

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# VALLEY COUNTY WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Ten Months Ending June 30, 2019

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Valley County Water District (District) provides an introduction to the financial statements for the ten months ended June 30, 2019. Management encourages readers to consider the information presented herein in conjunction with the basic financial statements and related notes as audited by CliftonLarsonAllen LLP, the independent audit firm retained by the District.

### FINANCIAL INFORMATION

- Overall operating revenues decreased by 22.76%, or \$3,083,056 in 2019, as a result of this year's operations. This is due to the change in dates associated with the District's fiscal year accounting period. On July 23, 2018, the Board of Directors approved to adopt the fiscal year accounting period change. The fiscal year commenced on September 1, 2018 and ended June 30, 2019. This is only a 10-month period.

The District also adjusted the variable water rates and fixed charges as outlined in Resolution 11-17-793. The rates and charges will increase annually through June 30, 2022 per the resolution.

- Operating expenses decreased by 22.99%, or \$2,933,379 in 2019. As mentioned, the District changed the fiscal year accounting period. The fiscal year commenced on September 1, 2018 and ended June 30, 2019. This is only a 10-month period.

The District's transmission and distribution operating expenses of \$2,265,449 include the Main San Gabriel Basin Watermaster assessments for all water produced during the fiscal year and the additional leases of water rights to the basin secured by the District. These leases cover the over production of the allotted water rights to the basin.

- Capital contributions increased by 39.57%, or \$355,969. This increase is attributed to new and outstanding development projects started in the fiscal year 2018-2019.

### REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all the investment in resources (assets) and the obligations to creditors (liabilities) of the District. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All the current year revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of District operations over the past year and can be used to determine if the District has successfully recovered

## **VALLEY COUNTY WATER DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Ten Months Ending June 30, 2019**

all of its costs through its water service rates and other customer service fees. This statement can also be used to evaluate the fiscal stability and worthiness of the District. The final required financial statement is the Statement of Cash Flows, which provides information about District cash receipts and cash payments during a reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities.

#### **NOTES TO THE BASIC FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found beginning on page 7.

#### **FINANCIAL ANALYSIS OF THE DISTRICT**

One of the most important questions asked about District finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the net position and the changes in net position of the District. One can think of net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – as a way to measure financial health or financial position of the District. Over time, increases or decreases in the net position of the District are one indicator of whether financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

**VALLEY COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Ten Months Ending June 30, 2019**

**Condensed Statement of Net Position**

	<u>2019*</u>	<u>2018**</u>	<u>Change</u>
<b>Assets:</b>			
Current and other assets	\$ 38,625,728	\$ 14,716,539	\$ 23,909,189
Non-current assets	1,498,500	967,365	531,135
Capital Assets	<u>62,410,209</u>	<u>61,129,234</u>	<u>1,280,975</u>
Total Assets	<u>102,534,437</u>	<u>76,813,138</u>	<u>25,721,299</u>
<b>Deferred Outflows of Resources:</b>			
Deferred amount of OPEB obligation	251,890	250,000	1,890
Deferred amount pension obligation	<u>1,124,594</u>	<u>1,293,725</u>	<u>(169,131)</u>
Total Deferred Outflows	<u>1,376,484</u>	<u>1,543,725</u>	<u>(167,241)</u>
<b>Liabilities:</b>			
Current liabilities	3,389,992	2,869,558	520,434
Non-current liabilities	<u>30,573,954</u>	<u>6,198,441</u>	<u>24,375,513</u>
Total Liabilities	<u>33,963,946</u>	<u>9,067,999</u>	<u>24,895,947</u>
<b>Deferred Inflows of Resources:</b>			
Deferred amount pension obligation	<u>245,368</u>	<u>260,210</u>	<u>(14,842)</u>
Total Deferred Inflows	<u>245,368</u>	<u>260,210</u>	<u>(14,842)</u>
<b>Net Position:</b>			
Net investment in capital assets	61,457,393	61,129,234	328,159
Restricted for construction	475,126	294,352	180,774
Unrestricted	<u>7,769,088</u>	<u>7,605,068</u>	<u>164,020</u>
Total Net Position	<u>\$ 69,701,607</u>	<u>\$ 69,028,654</u>	<u>\$ 672,953</u>

\* 10 months ending June 30, 2019

\*\* 12 months ending August 31, 2018

As noted earlier, net position may serve over time as a useful indicator of an agency's financial position. In the case of the District, the net position of the District was \$69,701,607 as of June 30, 2019 and \$69,028,654 as of August 31, 2018.

By far the largest portion of the District's net position (88.17% in 2019 and 88.56% in 2018) reflects its investment in capital assets (net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the service area of the District; consequently, these assets are not available for future spending.

**VALLEY COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Ten Months Ending June 30, 2019**

At the end of fiscal years 2019 and 2018, the District shows a positive balance in its unrestricted assets of \$7,769,088 and \$7,605,068, respectively that may be utilized in future years for emergencies or contingency expenditures.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2019*</u>	<u>2018**</u>	<u>Change</u>
<b>Revenues</b>			
Operating revenues	\$ 10,464,983	\$ 13,548,039	\$ (3,083,056)
Non-operating revenues, net	440,109	501,852	(61,743)
Total Revenues	<u>10,905,092</u>	<u>14,049,891</u>	<u>(3,144,799)</u>
<b>Expenses</b>			
Operating expenses	9,824,499	12,757,878	(2,933,379)
Depreciation expense	1,663,202	1,717,215	(54,013)
Total Expenses	<u>11,487,701</u>	<u>14,475,093</u>	<u>\$ (2,987,392)</u>
Net position before capital contributions	(582,609)	(425,202)	(157,407)
<b>Capital contributions</b>	<u>1,255,562</u>	<u>899,593</u>	<u>355,969</u>
<b>Change in net position</b>	672,953	474,391	198,562
<b>Net position, beginning of year</b>	69,028,654	69,616,812	(588,158)
<b>Prior period adjustment</b>	-	(1,062,549)	1,062,549
<b>Net position, beginning of year</b>	<u>69,028,654</u>	<u>68,554,263</u>	<u>474,391</u>
<b>Net position, end of fiscal year</b>	<u>\$ 69,701,607</u>	<u>\$ 69,028,654</u>	<u>\$ 672,953</u>

\* 10 months ending June 30, 2019

\*\* 12 months ending August 31, 2018

The Statement of Revenues, Expenses, and Changes in Net Position demonstrates how the net position of the District changes throughout the fiscal year. In the case of the District, net position increased by \$672,953 in 2019.

In 2019, the sources of changes in net assets reflect that the District's total revenues decreased by \$3,144,799. Operating revenues decreased by \$3,083,056, representing 98.04% of the change in total revenue, which is attributed to the 10-month period for this fiscal year. Correspondingly, total expenses decrease by \$2,987,392. Furthermore, operating expenses decreased by \$2,933,379, which is attributed to the 10-month period for this fiscal year. Overall, the increase in net position is due to the receipt of \$1,255,562 in capital contributions for treatment facilities.

**VALLEY COUNTY WATER DISTRICT**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**For the Ten Months Ending June 30, 2019**

**Capital Asset Administration**

	Balance at August 31, 2018	Additions	Deletions and Transfers	Balance at June 30, 2019
Capital assets:				
Non-depreciable assets	\$ 15,756,277	\$ 2,865,530	\$ (15,821)	\$ 18,605,986
Depreciable assets	75,270,716	94,468	(43,438)	75,321,746
Accumulated depreciation and amortization	<u>(29,897,759)</u>	<u>(1,663,202)</u>	<u>43,438</u>	<u>(31,517,523)</u>
Total capital assets, net	<u>\$ 61,129,234</u>	<u>\$ 1,296,796</u>	<u>\$ (15,821)</u>	<u>\$ 62,410,209</u>

At the end of fiscal year 2019, the capital assets of the District were \$62,410,209 (net of accumulated depreciation) including land, transmission and distribution systems, water treatment facilities, maintenance equipment, and construction-in-progress. There were various capital asset additions and deletions/transfers during the years.

**CONDITIONS AFFECTING CURRENT FINANCIAL POSITION**

The District identified certain capital improvement projects in the amount of approximately \$25 million over the next 5-year period. In order to fund these projects, the Board of Directors approved a revenue bond in the amount of \$22,845,000. The debt will be paid over a 30-year period. Some of the capital improvement projects include the replacement of pipeline, rehabilitating reservoirs and booster stations, the implementation of advanced metering infrastructure, and a new District headquarters.

In addition, the Board of Directors agreed to let remain in effect the Stage 1 Water Supply Emergency restrictions, pursuant to Ordinance 05-15-127. The drought conditions have improved very little in the State of California. This has impacted water sales within the District.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide potential funding sources, customers, stakeholders, and other interested parties with an overview of the financial operations and financial condition of the District. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the General Manger of the District, Mr. Jose Martinez, at (626) 338-7301.

**FINANCIAL SECTION**

**VALLEY COUNTY WATER DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2019**

**With Comparative Totals for August 31, 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and investments	\$ 12,047,414	\$ 12,360,359
Cash and investments with fiscal agent	-	50,000
Cash held by trustee	24,491,013	-
Accounts receivable, water sales and service charges	1,369,210	1,628,287
Accounts receivable, other	70,647	48,799
Cooperating respondents receivable	412,945	385,140
Accrued interest receivable	65,276	38,255
Material and supplies inventory	160,034	177,284
Prepaid expenses	9,189	28,415
Total Current Assets	38,625,728	14,716,539
<b>Noncurrent assets:</b>		
Capital assets, not being depreciated	18,605,986	15,756,277
Capital assets, net	43,804,223	45,372,957
Investment in Covina Irrigating Company	1,498,500	967,365
Total Non-Current Assets	63,908,709	62,096,599
<b>Total Assets</b>	<b>102,534,437</b>	<b>76,813,138</b>
<b>Deferred outflows of resources:</b>		
Deferred amount OPEB obligation	251,890	250,000
Deferred amount pension obligation	1,124,594	1,293,725
Total Deferred Outflows	1,376,484	1,543,725

Continued on next page

See independent auditors' report and accompanying notes to the financial statements.

**VALLEY COUNTY WATER DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2019**

**With Comparative Totals for August 31, 2018**

	<b>2019</b>	<b>2018</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses-operations	\$ 1,931,310	\$ 1,718,700
Main San Gabriel Basin Watermaster assessment	-	159,132
Accrued wages and compensated absences	262,293	251,179
Bonds payable - current portion	390,000	-
Accounts payable-pass-through receipts	19,412	19,519
Unearned revenue	40,462	27,594
Deposits payable	243,763	364,281
Advances for construction	502,752	329,153
Total Current Liabilities	3,389,992	2,869,558
<b>Noncurrent liabilities:</b>		
OPEB obligation	2,291,962	2,431,894
Net pension liability	3,703,289	3,766,547
Bonds payable, net of current portion	24,578,703	-
Total Noncurrent Liabilities	30,573,954	6,198,441
<b>Total Liabilities</b>	33,963,946	9,067,999
<b>Deferred inflows of resources:</b>		
Deferred amount pension obligation	245,368	260,210
Total Deferred Inflows	245,368	260,210
<b>Net position:</b>		
Net investment in capital assets	61,457,393	61,129,234
Restricted for construction	475,126	294,352
Unrestricted net position	7,769,088	7,605,068
<b>Total Net Position</b>	\$ 69,701,607	\$ 69,028,654

See independent auditors' report and accompanying notes to the financial statements.

**VALLEY COUNTY WATER DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Ten Month Ending June 30, 2019  
With Comparative Totals for August 31, 2018**

	2019	2018
<b>Operating revenues:</b>		
Water sales	\$ 7,283,233	\$ 8,418,402
Other services charges	353,613	584,747
Project reimbursements and settlement revenue	2,828,137	4,544,890
<b>Total operating revenues</b>	<b>10,464,983</b>	<b>13,548,039</b>
<b>Operating expenses:</b>		
Source of supply	2,560,361	3,156,437
Pumping	800,444	1,434,555
Treatment	400,818	1,056,342
Transmission and distribution	2,265,449	2,994,967
Customer service	421,457	496,948
General and administrative	3,375,970	3,618,629
<b>Total operating expenses</b>	<b>9,824,499</b>	<b>12,757,878</b>
Operating income (loss) before depreciation expense	640,484	790,161
Depreciation expense	(1,663,202)	(1,717,215)
<b>Operating loss</b>	<b>(1,022,718)</b>	<b>(927,054)</b>
<b>Non-operating revenues(expenses):</b>		
Property taxes	318,344	317,296
Investment income	694,311	183,591
Interest expense	(1,146,179)	-
Gain on sale of assets	1,700	3,100
Unrealized gain (loss) on cash and investment, net	571,933	(2,135)
<b>Total non-operating income (loss), net</b>	<b>440,109</b>	<b>501,852</b>
<b>Capital contributions:</b>		
Water treatment plant	1,255,562	899,593
<b>Total capital contributions</b>	<b>1,255,562</b>	<b>899,593</b>
<b>Change in net position</b>	<b>672,953</b>	<b>474,391</b>
<b>Net Position, Beginning of Fiscal Year</b>	69,028,654	69,616,812
<b>Cumulative Effect of Change in Accounting Principle</b>	-	(1,062,549)
<b>Net Position, Beginning of Fiscal Year, Restated</b>	<b>69,028,654</b>	<b>68,554,263</b>
<b>Net Position, End of Fiscal Year</b>	<b>\$ 69,701,607</b>	<b>\$ 69,028,654</b>

See independent auditors' report and accompanying notes to the financial statements.

**VALLEY COUNTY WATER DISTRICT**

**STATEMENT OF CASH FLOWS  
For the Ten Month Ending June 30, 2019  
With Comparative Totals for August 31, 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from water sales and services	\$ 7,385,007	\$ 8,252,294
Cash receipts from other services	353,613	584,747
Cash receipts from project reimbursement	2,828,137	4,544,891
Payments for salaries and services	(3,831,095)	(3,789,029)
Watermaster assessment received (paid)	(159,132)	56,247
Payments for materials and services	(5,783,995)	(8,511,577)
Net cash provided by operating activities	792,535	1,137,573
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from property taxes	318,344	317,296
Other non-operating activities	40,691	(4,617)
Net cash provided by non-capital financing activities	359,035	312,679
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(2,764,177)	(3,001,984)
Proceeds from issuance of bonds	25,000,000	-
Proceeds from sale of equipment	1,700	3,100
Net issue costs paid	(176,793)	-
Principal paid on bond payable	(180,000)	-
Interest paid on bond payable	(1,000,684)	-
Advances for construction	173,600	73,681
Capital contributions	1,255,562	899,593
Net cash provided (used) by capital and financing activities	22,309,208	(2,025,610)
<b>Cash flows from investing activities:</b>		
Interest earnings received	667,290	165,773
Net cash provided by investing activities	667,290	165,773
Net increase (decrease) in cash and cash equivalents	24,128,068	(409,585)
Cash and cash equivalents, beginning of year	12,410,359	12,819,944
<b>Cash and cash equivalents, end of year</b>	<b>\$ 36,538,427</b>	<b>\$ 12,410,359</b>

Continued on next page

See independent auditors' report and accompanying notes to the financial statements.

**VALLEY COUNTY WATER DISTRICT**

**STATEMENT OF CASH FLOWS  
For the Ten Month Ending June 30, 2019  
With Comparative Totals for August 31, 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of operating loss to net cash provided (used)</b>		
<b>by operating activities:</b>		
Operating loss	\$ (1,022,718)	\$ (927,054)
<b>Adjustments to reconcile operating loss to net cash provided (used)</b>		
<b>by operating activities:</b>		
Depreciation expense	1,663,202	1,717,215
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in assets:		
Accounts receivable - water sales and services	259,077	(180,077)
Accounts receivable - other	(21,848)	(18,808)
Cooperating respondents receivable, net	(27,805)	37,294
Materials and supplies inventory	17,250	(42,095)
Prepaid expenses	19,226	787
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses - operations	212,610	368,755
Main San Gabriel Basin Watermaster assessment	(159,132)	56,247
Accrued wages and compensated absences	11,114	(8,356)
Unearned revenue	12,868	(7,874)
Deposits payable	(120,518)	3,357
Other post-employment benefits payable	(141,822)	(4,082)
Changes related to net pension liability	91,031	142,264
Total Adjustments	1,815,253	2,064,627
<b>Net cash provided by operating activities</b>	<b>\$ 792,535</b>	<b>\$ 1,137,573</b>

See independent auditors' report and accompanying notes to the financial statements.

# VALLEY COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ending June 30, 2019

### **NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization and Operations of the Reporting Entity**

The Valley County Water District (District) was formed in 1925 and incorporated in 1926, and is authorized by Division 12 of the California Water Code. The District provides water to residential and commercial customers in the Cities of Baldwin Park, Irwindale, Azusa and West Covina, all of which encompasses approximately 12.8 square miles, including the annexation of the Santa Fe Dam area in 1973.

The District is governed by a five-member Board of Directors representing the District. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District's Board of Directors meets twice each month. Meetings are publicly noted and citizens are encouraged to attend.

During the fiscal year 2017-18, the District elected to change its fiscal year end from August 31 to June 30 beginning with fiscal year 2018-19 to match with California state government accounting period. As such, the financial statements report the ten-month period ending June 30, 2019.

#### **Basis of Accounting and Measurement Focus**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service areas on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. As such, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water deliveries result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

#### **Basis of Preparation**

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only

# VALLEY COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ending June 30, 2019

### **NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

#### **Use of Estimates**

The preparation of the basic financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

#### **Change in Accounting Principles**

In 2017-18, the beginning net position of the financial statements was decreased by \$1,062,549 to recognize the effect of the change in the June 30, 2017 balance of the net OPEB liability of \$2,492,501. The implementation of GASB Statement No. 75 resulted in this cumulative effect of change in accounting principle.

In addition, in 2018-19, the District implemented GASB Statement No. 89, which requires interest cost incurred before the end of construction period to be recognized as an expense in the period in which the cost is incurred. Therefore, there is no capitalized interest for the ten months ended June 30, 2019.

#### **Cash and Cash held by Trustee**

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

Cash held by trustee is cash from the sale of bonds to be used to finance acquisition and construction of certain improvements to the District's Water System.

#### **Investments and Investment Policy**

The District has adopted an investment policy directing the General Manager to deposit funds in financial institutions. Investments are to be made in the following areas:

- Passbook checking and savings accounts
- Certificates of deposit (non-negotiable)

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

- Money market securities
- State of California – Local Agency Investment Fund (LAIF)
- Securities of the United States government
- Federal agency obligations
- Bonds issued by the District

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

**Accounts Receivable and Allowance**

The District extends credit to customers in the normal course of operations. Bad debts associated with accounts receivable for services are written off when deemed uncollectible which management believes approximates the allowance method.

**Materials and Supplies Inventory**

Materials and supplies inventory consists primarily of water meters, pipes and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

**Prepaid Expenses**

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**Capital Assets**

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are recorded at their acquisition values as of the date of the contribution. Net interest cost during construction is capitalized when the effects of capitalization materially impact the financial statements. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Source of supply and pumping equipment	10 to 75 years
Transmission and distribution system	10 to 50 years
Buildings, equipment, and furniture	5 to 40 years

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

***Other Postemployment Benefits Other than Pensions (OPEB)***

The District recorded deferred outflows of resources related to its OPEB obligation that resulted from District contributions to the plan subsequent to the measurement date of the actuarial valuations for the healthcare plan and for differences between expected and actual plan experience. The deferred outflows related to the OPEB obligation will be amortized as detailed in Note 8 to the financial statements.

***Pension Plan***

The deferred outflows of resources related to the net pension obligation that resulted from District contribution to employee pension plans subsequent to the measurement date of the actuarial valuation for the pension plans, the difference between actual and expected experience, the difference between the estimated and actual return on pension plan investments and changes proportion and assumptions. The deferred outflow related to the net pension obligation will be amortized as detailed in Note 9 to the financial statements.

**Accounts Payable – Pass-Through Receipts**

The District, on some water bills, collects Utility Users Tax for the Cities of Baldwin Park and Irwindale from customers who reside within each City's boundaries. Receipts from these collections are passed through to the respective cities throughout the year. Accordingly, revenue from these collections has not been recorded.

**Compensated Absences**

The District has recorded an accrual for compensated absences in accordance with the District's policy of paying for unused vacation and sick time of employees. An employee who has passed and completed the probation period of 6-months is eligible to schedule and take paid vacation to the extent of the vacation time then accrued as follows: i) First year through the 4th year of employment, an employee shall accrue 3.08 hours vacation per two-week period of employment (80.08 hours of vacation per year). ii) Fifth year through the 9th year of employment, an employee shall accrue 4.62 hours vacation per two-week period of employment (120.12 hours of vacation per year). iii) Tenth year through the 19th year of employment, an employee shall accrue 6.15 hours vacation per two-week period of employment (160.16 hours of vacation per

# VALLEY COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ending June 30, 2019

### **NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

year). iv) Twentieth year and thereafter, an employee shall accrue 0.31 additional hours vacation per two-week period of employment for each year after 19 years of employment not to exceed 1.54 additional hours vacation per two-week period of employment. By way of example only, this would represent a maximum of 40.04 additional hours of vacation per year through the 25th year of employment. Sick leave is an employee welfare benefit that is provided to District employees in the event of an illness or injury. Employees accrue 3.69 hours of sick leave for every two-week time period. Sick leave accrual is cumulative and may accrue indefinitely.

#### **Unearned Revenue**

Under the accrual basis of accounting, revenues are recognized only when earned. Thus, the enterprise funds defer revenue recognition for resources that have been received at fiscal year-end, but not yet earned. Assets recognized before the earning process is complete are offset by a corresponding liability as unearned revenue. In addition, Cooperating Respondents Receivable for which repayments are deferred, or for which the balance may be written off if certain terms and conditions of the contract cannot be met, have also been offset by unearned revenue.

#### **Postemployment Benefits Other than Pension (OPEB)**

The District participate in a single employer defined benefit postemployment healthcare plan. 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 District Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

#### **Net Pension Obligation**

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) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **Deferred Inflows of Resources**

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element represents an acquisition of resources applicable to future periods and therefore will not be recognized as

# VALLEY COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ending June 30, 2019

### **NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

an inflow of resources (revenue) until that time. The deferred inflows of resources related to pensions results from the difference between the estimated and actual return on pension plan investments, the effect of changes in proportion and changes in assumptions, and the difference between expected and actual experience. These amounts are deferred and amortized as detailed in Note 9 to the financial statements.

#### **Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

#### **Net Position**

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

*Net Investment in Capital Assets* – Consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* – Consists of assets that have restrictions placed upon their use by external constraints imposed by either creditors (debt covenants), grantors, contributors, or laws and regulation of other governments or constraints imposed by law through enabling legislation.

*Unrestricted* – Consists of any remaining balance of the District’s net position that do not meet the definition of “restricted” or “net investment in capital assets”.

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

#### **Budgetary Policies**

The District adopts an annual non-appropriated budget for planning, control and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

#### **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2019, that has effective dates that may impact future financial presentations.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Governmental Accounting Standards Board Statement No. 84**

In January 2017, the GASB issued Statement No. 84 *Fiduciary Activities*. The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the fiscal year 2019-20.

**Governmental Accounting Standards Board Statement No. 87**

In June 2017, the GASB issued Statement No. 86 *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement is effective for the fiscal year 2020-21.

**Governmental Accounting Standards Board Statement No. 90**

In August 2018, the GASB issued Statement No. 90 *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100 percent equity interest is acquired in that component unit. The statement is effective for the fiscal year 2019-20.

**Governmental Accounting Standards Board Statement No. 91**

In May 2019, the GASB issued Statement No. 91 *Conduit Debt Obligations*. The objective of the statement is to eliminate diversity in practice associated with commitments extended by issuer, arrangements associated with conduit obligations and related note disclosures. The statement clarifies the existing definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the user, and establishing standards for accounting and financial reporting. The statement is effective for the fiscal year 2021-22.

**Governmental Accounting Standards Board Statement No. 92**

In January 2020, the GASB issued Statement No. 92 *Omnibus 2020*. The objectives of the Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

variety of topics. Some requirements are effective upon issuance of the statement and other requirements are effective for the fiscal year 2020-21.

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as shown herein.

Cash and investments	\$ 12,047,414
Cash held by trustee	<u>24,491,013</u>
Total cash and investments	<u>\$ 36,538,427</u>

Cash and investments as of June 30, 2019 consist of the following:

Cash on hand	\$ 2,000
Deposits held with financial institutions	1,033,809
Certificate of deposit	266,227
Local Agency Investment Fund (LAIF)	<u>10,745,378</u>
Total cash and cash equivalents on hand and in instructions	12,047,414
Cash held by trustee	<u>24,491,013</u>
Total cash and cash equivalents and investments	<u>\$ 36,538,427</u>

Cash held by trustee is in a guaranteed investment contract (GIC) with a financial institution for which it receives direct interest payments.

**Investment Policy**

The District's investment policy outlines the guidelines required to be used in effectively managing the District's available cash in accordance with the California Government Code. Summarized below are the investment vehicles that are authorized and certain provisions of the policy that address interest rate risk and concentration of credit risk.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 2: CASH AND INVESTMENTS**

Authorized Maximum Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government and Agencies	5 years	None	None
Banker's Acceptance	180 days	15%	15%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	1 year	None	None
Negotiable Certificates of Deposit	1 year	20%	25%
LAIF	N/A	None	\$50 Million
Money Market Funds	90 days or less	20%	None

**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 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 government 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. Of the bank balances, up to \$250,000 as of June 30, 2019 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-leader) 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 Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the Local Agency Investment Fund (LAIF).

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 2: CASH AND INVESTMENTS**

**Investment in State Investment Pool**

The District is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not subject to categorization to indicate the level of custodial risk assumed by the District at year-end.

**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. The District’s investments mature over time, generally consistent with its cash flow and liquidity needs.

Maturities of investments at June 30, 2019 are as shown herein.

Investment Type	Totals	Remaining Maturity	
		12 Months Or Less	13 to 60 Months
Certificates-of-deposit	\$ 266,227	\$ 266,227	\$ -
Local Agency Investment Fund (LAIF)	10,745,378	10,745,378	-
Total	<u>\$ 11,011,605</u>	<u>\$ 11,011,605</u>	<u>\$ -</u>

The District has no investments that are highly sensitive to interest rate fluctuations.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District’s investment policy and the actual rating as of year-end for each investment type.

Credit ratings of investments and cash equivalents as of June 30, 2019 are shown herein.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 2: CASH AND INVESTMENTS**

Investment Type	Totals	Rating as of Year End	
		AAA	Not Rated
Certificates-of-deposit	\$ 266,227	\$ -	\$ 266,227
Local Agency Investment Fund (LAIF)	10,745,378	-	10,745,378
Total	<u>\$ 11,011,605</u>	<u>\$ -</u>	<u>\$ 11,011,605</u>

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributable to the magnitude of the District’s investment in a single issuer. As of June 30, 2019, the District has no investment (other than external investment pools) that represented 5% or more of total District investments.

**NOTE 3: FAIR VALUE OF INVESTMENTS**

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that the GASB requires or permits in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments’ fair value measurements at June 30, 2019 are presented herein.

	Fair Value	Fair Value Measurement Using		
		Level 1 Input	Level 2 Input	Level 3 Input
Investment in Covina Irrigating Company	\$ 1,498,500	\$ -	\$ -	\$ 1,498,500
Total Investments Subject to Fair Value Measurement	<u>\$ 1,498,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,498,500</u>

**NOTE 4: INVESTMENT IN COVINA IRRIGATING COMPANY**

The District has purchased 111 shares of stock from various individuals in the Covina Irrigating Company at various prices in the range of \$250 to \$1,230 per share for a total cost of \$85,585. These shares of stock were purchased to help provide the District with an additional source of water. Each share of stock has a proportionate right to water delivery based upon the annual entitlement as determined by the Main San Gabriel Basin Watermaster. For financial reporting purposes, each share has been reported at its fair value of approximately \$13,500 per share, which totals \$1,498,500 for the total investment.

In July 2019, the District sold 100 shares of the Covina Irrigating Company’s stock and received total payment of \$1,350,000. See Note 15.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 5: CAPITAL ASSETS**

**Capital Assets**

Changes in capital assets for 2019 is presented herein.

	Balance at August 31, 2018	Additions	Deletions and Transfers	Balance at June 30, 2019
Non-depreciable assets:				
Land and Easements	\$ 3,843,549	\$	\$	\$ 3,843,549
Construction in Progress	11,912,728	2,865,530	(15,821)	14,762,437
Total Capital Assets, not being depreciated	<u>15,756,277</u>	<u>2,865,530</u>	<u>(15,821)</u>	<u>18,605,986</u>
Depreciable assets:				
Production Equipment & Facilities	9,054,404			9,054,404
Treatment Facilities	35,854,837			35,854,837
Distribution System & Pipelines	25,944,157	94,468		26,038,625
Buildings, Structures and Improvements	2,557,551			2,557,551
Maintenance Equipment	890,117		(43,438)	846,679
Office Equipment & Furniture	517,624			517,624
District Documents & Plans	452,026			452,026
Total Depreciable Assets	<u>75,270,716</u>	<u>94,468</u>	<u>(43,438)</u>	<u>75,321,746</u>
Less Accumulated Depreciation	<u>(29,897,759)</u>	<u>(1,663,202)</u>	<u>43,438</u>	<u>(31,517,523)</u>
Total Capital Assets, being depreciated	<u>45,372,957</u>	<u>(1,568,734)</u>	<u>-</u>	<u>43,804,223</u>
Total Capital Assets, Net	<u>\$ 61,129,234</u>	<u>\$ 1,296,796</u>	<u>\$ (15,821)</u>	<u>\$ 62,410,209</u>

**Construction-in-Progress**

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balance at June 30, 2019 is presented herein.

Water Treatment Plant	\$ 10,563,367
Production Equipment and Facilities	4,199,070
Total	<u>\$ 14,762,437</u>

**NOTE 6: COMPENSATED ABSENCES**

The employees of the District at June 30, 2019 had unused sick pay and vacation of \$202,843. Considering that the employees have a vested right to these benefits, the corresponding liability has been reflected in accrued wages and compensated absences.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 7: LONG-TERM DEBT**

On July 1, 2018, Valley County Water District (the District) and the Valley County Water District Financing Authority (the Authority), have issued Valley County Water District Financing Authority Revenue Bond, Series 2018A for the aggregate principal amount of \$22,845,000, mature in varying amount from \$180,000 to \$1,355,000 annually, on January 1, 2019 through January 1, 2048, plus interest from 3.25% to 5.00% payable semi-annually.

As of June 30, 2019, \$24,491,013 were available for construction and cash was held by a trustee. The maturity amount includes the premium on bonds which is amortized over the life of the liability. The bonds included a premium of \$2,384,535. Amortization recognized during the year ended June 30, 2019 was \$80,832. At June 30, 2019, the unamortized bond premium was \$2,303,703. The bonds included issuance costs of \$229,535. This amount is expensed in the period incurred.

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2019, are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 390,000	\$ 1,020,938	\$ 1,410,938
2021	405,000	1,005,038	1,410,038
2022	420,000	986,437	1,406,437
2023	440,000	964,937	1,404,937
2024	465,000	942,312	1,407,312
2025-2029	2,685,000	4,331,062	7,016,062
2030-2034	3,430,000	3,577,044	7,007,044
2035-2039	4,170,000	2,839,344	7,009,344
2040-2044	5,175,000	1,790,850	6,965,850
2045-2048	5,085,000	470,138	5,555,138
	22,665,000	\$ 17,928,100	\$ 40,593,100
Premium on bonds	2,303,703		
	\$ 24,968,703		

**NOTE 8: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

**Plan Description and Eligibility**

The District administers a single employer defined benefit healthcare plan in which it provides postemployment healthcare benefits to all qualified employees who meet the District's Public Employees Retirement System (PERS) current plan requirements.

For regular District employees hired before June 1, 2014, five years of full time continuous

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 8: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

employment with the District is required. The employee must be at least 50 years of age and have participated in the PERS plan for at least five years for health care benefits. Additionally, the employee must be at least 50 years of age and have participated in the PERS plan for at least ten years for dental and vision benefits, as well as receiving service retirement benefits pursuant to the terms and conditions of the District’s PERS plan.

The District pays a fixed sum that is not to exceed 100% of the medical plan premium from the date of retirement for the life of the retired employee. Depending on the PERS payment plan chosen by the employees for spousal coverage after the death of an employee, the District would also cover the spouse for life under the same plan.

The District participates in the CalPERS health program for medical coverage and the Association of California Water Agencies (ACWA) health program for dental and vision coverage.

Participant Type:	Number of Participants
Inactive participants currently receiving benefits	17
Inactive participants entitled to but not yet receiving benefit payments	-
Active employees	26
Total	43

**Funding Policy**

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually by the District. For the ten months ended June 30, 2019, the District contributed \$250,000 to the plan.

**Net OPEB Liability (Asset)**

The table herein shows the components of the net OPEB liability of the District:

	Balance June 30, 2019
Total OPEB liability	\$ 3,251,920
Plan fiduciary net position	959,958
District’s net OPEB liability (asset)	\$ 2,291,962
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	29.52%

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 8: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

**Investments**

At June 30, 2019, all Plan investments are held in the California Employers' Retiree Benefit Trust Program (CERBT) through CalPERS.

**Actuarial Methods and Assumptions**

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. Liabilities in this report were calculated as of the valuation date.

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the actuarial assumptions shown herein, applied to all periods included in the measurement, unless otherwise specified

Actuarial Methods and Assumptions

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	7.00%
Health Care Trend Rate	4.00%

Mortality assumptions were based on the 2014 rates used by CalPERS for the pension valuations.

The long-term expected rate of return on 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. Shown herein is the assumed asset allocation and assumed rate of return for each asset class.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 8: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

Asset Class	Percentage of Portfolio	Assumed Gross Return
US Large Cap	43%	7.80%
US Small Cap	23%	7.80%
Long-Term Corporate Bonds	12%	5.30%
Long-Term Government Bonds	6%	4.50%
Treasury Inflated Protected Securities (TIPS)	5%	7.80%
US Real estate	8%	7.80%
All Commodities	3%	7.80%

The discount rate used to measure the total OPEB liability was 7.0 percent. It is assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. Historic 29 year real rates of return for each asset class were used, along with an assumed long-term inflation assumption, to set the discount rate. The expected investment return was offset by investment expenses of 25 basis points. Rolling periods of time for all asset class, in combination, were reviewed to appropriately reflect the correlation between asset classes. That means that the average returns for any asset class don't necessarily reflect the averages over time individually, but do reflect the return for the asset class for the portfolio average. Geometric means were used.

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2018	\$ 3,090,620	\$ 658,726	\$ 2,431,894
Changes for the year:			
Service cost	89,860	-	89,860
Interest	214,482	-	214,482
Employer contributions	-	393,042	(393,042)
Expected investment income	-	54,818	(54,818)
Investment Gains/Losses	-	(2,363)	2,363
Expected Benefit payments	(143,042)	(143,042)	-
Administrative expense	-	(1,223)	1,223
	<u>161,300</u>	<u>301,232</u>	<u>(139,932)</u>
Balances at June 30, 2019	<u>\$ 3,251,920</u>	<u>\$ 959,958</u>	<u>\$ 2,291,962</u>

The following presents the District's net OPEB liability calculated using the discount rate of 7.0 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 8: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

Discount rate	Net OPEB Liability (Asset)
1% decrease (6.00%)	\$ 2,701,689
Current discount rate (7.00%)	2,291,962
1% increase (8.00%)	1,951,846

The following presents the District’s net OPEB liability calculated using the current healthcare cost trend rate of 4.0 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current rate:

Healthcare trend rate	Net OPEB Liability (Asset)
1% decrease	\$ 1,913,243
Current trend rate	2,291,962
1% increase	2,740,719

**OPEB Expense**

For the ten months ended June 30, 2019, the District recognized OPEB expense of \$251,220. As of June 30, 2019, the District reported deferred outflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources
Contribution to OPEB plan after measurement date	\$ 250,000
Net difference between projected and actual earnings of OPEB plan investments	1,890
Total	\$ 251,890

As of June 30, 2019, employer OPEB contributions of \$250,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

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

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 8: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

Fiscal Year Ended June 30	Amortization
2020	\$ 473
2021	473
2022	473
2023	471
	\$ 1,890

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

The District participates in a cost sharing multiple-employer defined benefit plan through the California Public Employees’ Retirement System (CalPERS) which covers substantially all regular full-time employees of the District. CalPERS acts as a common investment and administrative agent for participating public entities within the state of California and reports information to the District in accordance with reporting standards established by the GASB.

The District has reported its proportionate share of the net pension liability, pension expense and deferred inflow of resources for the above plan and a deferred outflow of resources as presented herein.

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalPERS	\$ 3,703,289	\$ 1,124,594	\$245,368	\$ 93,497

**Plan Description**

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan is comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. Individual employers may sponsor more than one Miscellaneous or Safety plan. The District sponsors one Miscellaneous Risk pool plan and the information presented below represents the allocated pension amounts for the District’s plan (the Plan). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees’ Retirement Law.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

**Benefits Provided**

The Plan 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 year of service credit, a benefit factor and the member’s final compensation. Members hired by the district, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for employment-related disability benefits regardless of length of service and non-duty disability benefits after 4 years of service. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The Post-Retirement Death Benefit is a one-time payment made to a retiree’s designated survivor or estate upon the retiree’s death. The Basic Death Benefit is paid to any member’s beneficiary if the member dies while actively employed. An employee’s eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is a least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service.

The cost of living adjustments for the Plan are applied as specified by the Public Employees’ Retirement Law.

The Plan provisions and benefits in effect for the Miscellaneous Risk Pool at June 30, 2019 is presented herein.

	<u>Miscellaneous Risk Pool</u>	
	On or Before	After
Hire date	12/31/2012	12/31/2012
Benefit formula	2.7% at 55	2.0% at 55
Benefit vesting schedule	5 years of services	5 years of services
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Required employee contribution rate	8.000%	6.500%
Required employer contribution rate	13.084%	7.266%

**Contributions**

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined annually through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**For the Ten Months Ending June 30, 2019**

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

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 contributions rates are express as percentage of annual payroll. The contribution rates for the plan for the year ended June 30, 2019 are presented above and the total District contributions were \$504,438.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of Miscellaneous Risk Pool net pension liability totaling \$3,703,289. The net pension liability was measured as of June 30, 2018. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District’s proportion was 0.08747%.

For the ten months ended June 30, 2019, the District recognized pension expense of \$93,497.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources presented herein.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	\$ 504,438	\$ -
Differences between expected and actual experience	126,480	43,041
Net differences between projected and actual earnings on plan investments	16,297	-
Effect of changes in assumptions	375,810	92,104
Adjustment due to differences in proportion	-	96,320
Differences between contributions and proportionate share of contributions	101,569	13,903
	\$ 1,124,594	\$ 245,368

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The net difference between projected and actual earnings on

VALLEY COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

plan investment is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the CalPERS Miscellaneous Risk Pool Plan for the June 30, 2018 measurement date is 3.8 years. The First year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining period not to exceed 2.8 years.

Remaining amounts will be recognized to pension expense as shown herein.

Year Ended June 30,	Amortization
2020	\$ 323,903
2021	167,838
2022	(99,863)
2023	(17,090)
	\$ 374,788

**Actuarial Methods and Assumptions**

Total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the methods and assumptions shown herein, applied to all prior periods included in the measurement:

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.50%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

CalPERS developed the mortality table used based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scales MP-2016. For more details on this table, Please refer to the 2017 experience study report.

All other actuarial assumption used in the June 30, 2017, valuation use the results of CalPERS Experience Study and Review of Actuarial Assumption – December 2017, including updates to salary increase, morality, and retirement rates, as a basis. The experience study report is available on the CalPERS website under Forms and Publications.

**Discount Rate**

The discount rate used to measure the total pension liability remained the same at 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees’ Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

CalPERS continues the Asset Liability Management (ALM) process to expand its review of assets and liabilities to ensure financial risks to the System are better understood, communicated, and mitigated. To establish appropriate levels of risk. ALM is focused on investment and actuarial policies. These policies include key decision factors and intend to drive optimum asset allocations, while stabilizing employer contribution rates, and the volatility of those rates year to year. Additionally, in order to better manage risks arising from terminating agencies, CalPERS has enhanced its oversight of contracting public agencies’ financial health through its development of a standardized review criteria. These improvements include streamlining the collection and termination process to reduce the timeframe, accelerating notifications to the

VALLEY COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

Board and members, and adopting a risk oversight process to improve early detection of financial hardship issues.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected 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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded single equivalent 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 adjusted to account for assumed administrative expenses.

The table herein reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	77.00%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

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

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

VALLEY COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019

**NOTE 9: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)**

**Sensitivity of the Proportionate Share of Net Pension Liability to Change in the Discount Rate**

The following table presents the District’s proportionate share of the net pension liability for the Plan, calculated using the current discount rate, 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 one-percentage point lower or one-percentage point higher than the current rate:

At June 30, 2019, the discount rate comparison was the following:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decreases (6.15%)	\$ 5,701,879
Current discount rate (7.15%)	3,703,289
1% increase (8.15%)	2,053,486

**Plan Fiduciary Net Position**

Detailed information about CalPERS Miscellaneous Risk Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**NOTE 10: COOPERATING RESPONDENTS RECEIVABLE – WATER TREATMENT PLANT CONSTRUCTION**

The overall basis for the Baldwin Park Operable Unit (BPOU) Agreement is to construct a new Water Treatment Plant (Plant) and distribution system. The Cooperating Respondents (CR) have agreed to pay for the construction of the Plant and the distribution system, while the District will operate and maintain the Plant. On April 17, 2017, the District adopted an extension agreement for the BPOU project for an additional 10 years. The previous agreement had a 15-year term which expired on May 8, 2017.

In March 2014, the District entered into a settlement agreement with the Cooperating Respondent (CR) Group regarding the capital and operations and maintenance reimbursement claims for the Clinton O. Nixon Granular Activated Carbon (GAC) Treatment Facilities and the Maine Street GAC Treatment Facility. Between the period of September 2003 and August 2005, the District’s Clinton O. Nixon and Maine Street groundwater production wells were out of

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 10: COOPERATING RESPONDENTS RECEIVABLE – WATER TREATMENT PLANT CONSTRUCTION**

service due to the detection of contamination, specifically perchlorate contamination, which required the District to purchase an alternative imported water supply in order to satisfy customer demand. As the alternative water supply was being imported, the cost of the purchased water was invoiced and paid by the District. Upon payment of the invoice, the District requested reimbursement from the CR Group for the total cost of the alternative water supply, and the CR Group subsequently reimbursed the District for the full invoice amount.

In the last year, the CR Group and the District agreed to rehabilitate the Arrow well located at the Plant. At the request of the CR Group, the well will be rehabilitated for the purpose of sampling the groundwater for detection of contaminants. If nitrate is detected in the groundwater, the CR Group's opinion is that they are not responsible for the removal of nitrates. This is not the District's view. However, the District is in constant communication with the CR Group to ensure that the project remains on schedule. The total amount of expenses incurred for this project were \$2,362,702 through June 30, 2019. The CR Group reimbursed the District for these capital expenses.

**NOTE 11: MAIN SAN GABRIEL BASIN WATERMASTER ASSESSMENT**

The Main San Gabriel Basin Watermaster Assessment (Watermaster) administers adjudicated water rights and manages groundwater resources within the watershed and groundwater basin known as the Main San Gabriel Basin (Basin). The Watermaster, created in 1973 by the California Superior Court of Los Angeles County, administers the Basin's adjudicated water rights and provides a basin-wide governing body for water resources management. The Watermaster operates under a formal Set of Rules and Regulations, which spell out the procedures by which Watermaster-controlled actions are to be carried out. Under the Rules and Regulations, water producers in the Basin must obtain Watermaster approval for activities such as 1) Constructing or modifying a well, 2) Constructing a groundwater treatment plant, 3) Increasing groundwater extraction, 4) Spreading water in the Basin, and 5) Spreading and storing supplemental water under a cyclic storage agreement.

In order to fund its operations, the Watermaster is authorized to levy and collect production assessments from the producers based upon their amounts of production during the preceding fiscal year. These assessments are applied primarily to the purchase of replacement water and to administrative costs. The Watermaster's production assessment is based on a production period from July 1, to June 30 each year. For the period ending June 30, 2019, the Watermaster billed the District \$874,069. The annual assessment is due and payable to the Watermaster on September 20<sup>th</sup> of each year.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 12: DEFERRED COMPENSATION SAVINGS PLAN**

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purposes of these Programs are to provide deferred compensation for public employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of the portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employees, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with legislation. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors. The plan assets for the two Programs are held in trust by Nationwide Retirement Services and VOYA Financial. As of June 30, 2019, the fair value of assets held by Nationwide Retirement Services and VOYA Financial were \$1,198,615 and \$1,115,722 respectively.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

**NOTE 13: COMMITMENTS AND CONTINGENCIES**

**Grant Awards**

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

**Litigation**

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

**NOTE 14: LEASED WATER RIGHTS**

Annually, the District leases water rights from various parties within the San Gabriel Basin for a one-year term to pump excess water for operations. For the ten months ended June 30, 2019, the District leased water rights amounting to \$1,361,546.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ending June 30, 2019**

**NOTE 15: SUBSEQUENT EVENT**

In July 2019, the District sold 100 shares of the Covina Irrigating Company's stock and received total payment of \$1,350,000. As of March 30, 2020, the District still owns 11 shares of stock from the Covina Irrigating Company.

**REQUIRED SUPPLEMENTARY INFORMATION**

**VALLEY COUNTY WATER DISTRICT**

**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY -  
OTHER POSTEMPLOYMENT  
BENEFITS OBLIGATION  
For the Ten Months Ending June 30, 2019**

<b>Total OPEB Liability</b>	<b>2018*</b>	<b>2019**</b>
Service Cost	\$ 87,455	\$ 89,860
Interest	203,065	214,482
Benefit Payments	(116,594)	(143,042)
<b>Net Change in Total OPEB Liability</b>	<b>173,926</b>	<b>161,300</b>
<b>Total OPEB Liability - beginning</b>	<b>2,916,694</b>	<b>3,090,620</b>
<b>Total OPEB Liability - ending (a)</b>	<b>\$ 3,090,620</b>	<b>\$ 3,251,920</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 306,526	\$ 393,042
Net Investment Income	44,828	54,818
Investment gain/losses		(2,363)
Benefit Payments	(116,594)	(143,042)
Administrative Expense	(227)	(1,223)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>234,533</b>	<b>301,232</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>424,193</b>	<b>658,726</b>
<b>Plan Fiduciary Net Position - ending (b)</b>	<b>\$ 658,726</b>	<b>\$ 959,958</b>
 <b>Net OPEB Liability (Asset) - ending (a) - (b)</b>	 <b>\$ 2,431,894</b>	 <b>\$ 2,291,962</b>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 21.31%	 29.52%
 Covered-employee Payroll	 \$ 2,001,298	 \$ 1,857,178
 Net OPEB Liability (Asset) as a Percentage of Covered-employee Payroll	 121.52%	 123.41%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

\* 12 months ending August 31st

\*\* 10 months ending June 30, 2019

See notes to required supplementary information and independent auditors' reports.

**VALLEY COUNTY WATER DISTRICT**

**SCHEDULE OF POST EMPLOYMENT  
HEALTHCARE BENEFIT CONTRIBUTIONS –  
OTHER POSTEMPLOYMENT BENEFITS OBLIGATION**

**For the Ten Months Ending June 30, 2019**

OPEB Contributions	2018*	2019**
Actuarially Determined Contribution (ADC)	\$ 250,000	\$ 250,000
Contributions in relation to the ADC	<u>250,000</u>	<u>250,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,001,298	\$ 1,857,178
Contributions as a percentage of covered-employee payroll	12.49%	13.46%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

\* 12 months ending August 31st

\*\* 10 months ending June 30, 2019

See notes to required supplementary information and independent auditors' reports.

**VALLEY COUNTY WATER DISTRICT**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
For the Ten Months Ending June 30, 2019**

<u>Description</u>	<u>2015*</u>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>	<u>2019**</u>
District's proportion of the net pension liability (assets)	0.08149%	0.08999%	0.08978%	0.08884%	0.08747%
District's proportionate share of the net pension liability (asset)	\$2,014,325	\$2,531,881	\$3,251,021	\$3,766,547	\$3,703,289
District's covered payroll reported as of the previous fiscal year to align with the measurement date of the net pension liability	\$1,636,071	\$1,569,163	\$1,960,928	\$1,907,902	\$2,001,298
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	123.12%	161.35%	165.79%	197.42%	185.04%
Plan fiduciary net position as a percentage of the total pension liability	83.03%	79.87%	74.85%	74.85%	74.94%

Note 1: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as data becomes available.

Note 2: The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

\* 12 months ending August 31st

\*\* 10 months ending June 30, 2019

See notes to required supplementary information and independent auditors' reports.

**VALLEY COUNTY WATER DISTRICT**

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS – NET PENSION LIABILITY  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
For the Ten Months Ending June 30, 2019**

	<u>2015*</u>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>	<u>2019**</u>
Contractually required contribution	\$ 324,698	\$ 477,867	\$ 370,656	\$ 370,656	\$ 504,438
Contributions in relation to the contractually required contribution	<u>324,698</u>	<u>477,867</u>	<u>370,656</u>	<u>370,656</u>	<u>504,438</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered payroll	\$1,569,163	\$1,960,928	\$1,907,902	\$2,001,298	\$1,857,178
Contributions as a percentage of covered payroll	20.69%	24.37%	19.43%	18.52%	27.16%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as data becomes available.

\* 12 months ending August 31st

\*\* 10 months ending June 30, 2019

See notes to required supplementary information and independent auditors' reports.

**VALLEY COUNTY WATER DISTRICT**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For the Ten Months Ending June 30, 2019**

**NOTE 1: PURPOSE OF SCHEDULES**

**Schedule of Changes in Net OPEB Liability**

The schedule is intended to show the funded status of the District's actuarially determined liability for postemployment benefits other than pensions. In the future, as data becomes available, 10 years of information will be presented.

**Schedule of Postemployment Healthcare Contributions**

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

**Schedule of District's Proportionate Share of the Net Pension Liability**

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

**Schedule of District's Contributions**

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

**SUPPLEMENTARY INFORMATION**

**VALLEY COUNTY WATER DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**  
**June 30, 2019**

	Water Operations	Treatment Plant Operations	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and investments	\$ 12,047,414	\$ -	\$ 12,047,414
Cash held by trustee	24,491,013	-	24,491,013
Accounts receivable, water sales and service charges	1,369,210	-	1,369,210
Accounts receivable, other	70,647	-	70,647
Cooperating respondents receivable, water treatment plant construction	412,945	-	412,945
Accrued interest receivable	65,276	-	65,276
Material and supplies inventory	160,034	-	160,034
Prepaid expenses	9,189	-	9,189
Total Current Assets	38,625,728	-	38,625,728
<b>Noncurrent assets:</b>			
Capital assets, not being depreciated	7,079,313	11,526,673	18,605,986
Capital assets, net	9,003,502	34,800,721	43,804,223
Investment in Covina Irrigating Company	1,498,500	-	1,498,500
Total Non-Current Assets	17,581,315	46,327,394	63,908,709
<b>Total Assets</b>	56,207,043	46,327,394	102,534,437
 <b>Deferred outflows of resources:</b>			
Deferred amount OPEB obligation	189,032	62,858	251,890
Deferred amount pension obligation	851,902	272,692	1,124,594
Total Deferred Outflows	1,040,934	335,550	1,376,484

Continued on next page

See independent auditors' reports.

**VALLEY COUNTY WATER DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**  
**June 30, 2019**

	Water Operations	Treatment Plant Operations	Total
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses-operations	1,712,792	218,518	1,931,310
Accrued wages and compensated absences	229,150	33,143	262,293
Bonds payable - current portion	390,000	-	390,000
Accounts payable-pass-through receipts	19,412	-	19,412
Unearned revenue	40,462	-	40,462
Deposits payable	243,763	-	243,763
Advances for construction	502,752	-	502,752
Total Current Liabilities	<u>3,138,331</u>	<u>251,661</u>	<u>3,389,992</u>
<b>Noncurrent liabilities:</b>			
OPEB obligation	1,768,768	523,194	2,291,962
Net pension liability	2,649,289	1,054,000	3,703,289
Bonds payable, net of current portion	24,578,703	-	24,578,703
Total Noncurrent Liabilities	<u>28,996,760</u>	<u>1,577,194</u>	<u>30,573,954</u>
<b>Total Liabilities</b>	<u>32,135,091</u>	<u>1,828,855</u>	<u>33,963,946</u>
<b>Deferred inflows of resources:</b>			
Deferred amount pension obligation	184,769	60,599	245,368
Total Deferred Inflows	<u>184,769</u>	<u>60,599</u>	<u>245,368</u>
<b>Net position:</b>			
Net investment in capital assets	15,129,999	46,327,394	61,457,393
Restricted for construction	475,126	-	475,126
Unrestricted net position	9,322,992	(1,553,904)	7,769,088
<b>Total Net Position</b>	<u>\$ 24,928,117</u>	<u>\$ 44,773,490</u>	<u>\$ 69,701,607</u>

See independent auditors' reports.

**VALLEY COUNTY WATER DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
For the Ten Months Ending June 30, 2019**

	Water Operations	Treatment Plant Operations	Total
<b>Operating revenues:</b>			
Water sales	\$ 7,283,233	\$ -	\$ 7,283,233
Other services charges	217,161	136,452	353,613
Project reimbursements and settlement revenue	321,508	2,506,629	2,828,137
Total operating revenues	7,821,902	2,643,081	10,464,983
<b>Operating expenses:</b>			
Source of supply	2,178,739	381,622	2,560,361
Pumping	544,982	255,462	800,444
Treatment	62,479	338,339	400,818
Transmission and distribution	1,349,923	915,526	2,265,449
Customer service	421,457	-	421,457
General and administrative	2,752,036	623,934	3,375,970
Total operating expenses	7,309,616	2,514,883	9,824,499
Operating income (loss) before depreciation and amortization expense	512,286	128,198	640,484
Depreciation expense	(756,608)	(906,594)	(1,663,202)
<b>Operating income (loss)</b>	(244,322)	(778,396)	(1,022,718)
<b>Non-operating revenues(expenses):</b>			
Property taxes	318,344	-	318,344
Interest income	694,311	-	694,311
Interest expense	(1,146,179)	-	(1,146,179)
Gain on sale of assets	1,700	-	1,700
Unrealized gain (loss) on cash and investment, net	571,933	-	571,933
<b>Total non-operating income, net</b>	440,109	-	440,109
<b>Capital contributions:</b>			
Water treatment plant	-	1,255,562	1,255,562
<b>Total capital contributions</b>	-	1,255,562	1,255,562
<b>Change in net position</b>	195,787	477,166	672,953
<b>Net Position, Beginning of Fiscal Year</b>	24,732,330	44,296,324	69,028,654
<b>Net Position, End of Fiscal Year</b>	\$ 24,928,117	\$ 44,773,490	\$ 69,701,607

See independent auditors' reports.

**OTHER INDEPENDENT AUDITORS' REPORT**



**INDEPENDENT AUDITORS' 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**

Board of Directors  
Valley County Water District  
Baldwin Park, 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 Valley County Water District (the District), as of and for ten months 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 March 30, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP  
Glendora, California  
March 30, 2020

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,  
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

