

VALLEY OF THE MOON WATER DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2019

HARSHWAL 
& COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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JUNE 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Valley of the Moon Water District
EL Verano, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Valley of the Moon Water District (District) as of and for the fiscal year 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of Pension Contributions, the Schedule of the District's OPEB Liability, and the Schedule of OPEB Contributions on pages 3-5 and 29-32 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020 on our consideration of the Valley of the Moon Water 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 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 Valley of the Moon Water District's internal control over financial reporting and compliance.

Harshwal & Company LLP

Oakland, California
January 24, 2020

**VALLEY OF THE MOON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

The Management's Discussion and Analysis of the Valley of the Moon Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read this in conjunction with the financial statements as listed in the Table of Contents.

Using This Financial Report

This annual report consists of three required financial statements. The "Statement of Net Position" is similar to a "Balance Sheet" of a private sector (commercial) entity. Assets, Liabilities and Net Position are reported in this statement.

The "Statement of Revenue, Expenses, and Changes in Net Position" reports revenues and expenses of the District and is similar to an "Income Statement" of a commercial enterprise.

The "Statement of Cash Flows" reports what activity occurred that caused increases and decreases in cash. This is very similar to a private sector cash flow statement. Increases or decreases in cash are segregated into natural categories such as "Operating Activities", "Capital and Related Financing Activities", "Non-Capital and Related Financing Activities", and "Investing Activities".

All statements are in comparative form to facilitate comparison to last fiscal year's financial activity.

The Comparative Statement of Net Position
Condensed comparative information is as follows:

	June 30,		Increase/(Decrease)	
	2019	2018	Amount	%
ASSETS & DEFERRED OUTFLOW				
Current Assets	\$ 7,226,934	\$ 6,617,990	\$ 608,944	9.20 %
Capital Assets, net	23,986,513	23,565,629	420,884	1.79 %
Other Non-Current Assets	608,942	608,942	-	- %
Deferred Outflow - Pension	<u>784,381</u>	<u>925,502</u>	<u>(141,121)</u>	<u>(15.25)%</u>
Total Assets & Deferred Outflow	<u>32,606,770</u>	<u>31,718,063</u>	<u>888,707</u>	<u>2.80 %</u>
LIABILITIES & DEFERRED INFLOW				
Current Liabilities	936,946	1,214,392	(277,446)	(22.85)%
Long - Term Liabilities	3,826,013	4,180,532	(354,519)	(8.48)%
Deferred Inflow - Pension	351,173	488,086	(136,913)	(28.05)%
Deferred Inflow - OPEB	<u>35,847</u>	<u>32,270</u>	<u>3,577</u>	<u>11.08 %</u>
Total Liabilities & Deferred Inflow	<u>5,149,979</u>	<u>5,915,280</u>	<u>(765,301)</u>	<u>(12.94)%</u>
NET POSITION				
Net investment in Capital Assets	23,986,513	22,305,603	1,680,910	7.54 %
Unrestricted	<u>3,470,278</u>	<u>3,497,180</u>	<u>(26,902)</u>	<u>(0.77)%</u>
Total Net Position	<u>\$ 27,456,791</u>	<u>\$ 25,802,783</u>	<u>\$ 1,654,008</u>	<u>6.41 %</u>

**VALLEY OF THE MOON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

The District's primary assets are property and equipment, investments held with the State Local Agency Investment Fund (LAIF) Account and the County of Sonoma Treasury, as well as current assets such as accounts receivable and operating cash.

At the end of the fiscal year, the District had \$5,128,197 in investments included in "Current Assets" shown in the table on the previous page \$1,140,427 in LAIF and \$3,987,770 in the Sonoma County Investment Pool.

The Comparative Statement of Revenues, Expenses, and Changes in Net Position

Condensed financial information is as follows (for the fiscal year ended):

	Year ended June 30,		Increase/(Decrease)	
	2019	2018	Amount	%
OPERATING REVENUES:				
Sales of Water and Services Charges	\$ 6,553,989	\$ 5,752,051	\$ 801,938	13.94 %
Total Operating Revenues	<u>6,553,989</u>	<u>5,752,051</u>	<u>801,938</u>	<u>13.94 %</u>
OPERATING EXPENSES				
Water Purchases	1,947,045	1,942,789	4,256	0.22 %
Plant Operating Expenses	1,146,434	857,995	288,439	33.62 %
General & Administrative Expenses	<u>1,305,711</u>	<u>1,542,190</u>	<u>(236,479)</u>	<u>(15.33)%</u>
Total Operating Expenses	<u>4,399,190</u>	<u>4,342,974</u>	<u>56,216</u>	<u>1.29 %</u>
Operating Income Before Depreciation	2,154,799	1,409,077	745,722	52.92 %
Depreciation	<u>901,636</u>	<u>930,951</u>	<u>(29,315)</u>	<u>(3.15)%</u>
Operating Income (loss)	<u>1,253,163</u>	<u>478,126</u>	<u>775,037</u>	<u>162.10 %</u>
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenue/(expenses)	142,040	135,207	6,833	5.05 %
Capital Contributions	<u>258,805</u>	<u>239,058</u>	<u>19,747</u>	<u>8.26 %</u>
Change in Net Position	<u>\$ 1,654,008</u>	<u>\$ 852,391</u>	<u>\$ 801,617</u>	<u>94.04 %</u>

The District's operating revenue increased by \$801,938 or 13.94% over the previous fiscal year. The District's customer base is relatively stable. Changes in the water sales revenue are primarily attributable to increased water consumption and increased service charges

Water purchases increased \$4,256 or 0.22% from last fiscal year. The District's unit cost of water purchased from the Sonoma County Water Agency went up from \$944.56 per acre foot to \$1,001.56 per acre foot. This represents a 5.98% increase. The increase in water purchase costs is primarily due to capital projects needed to be completed by the Agency. Compared to the prior fiscal year, plant-operating expenses increased \$288,439 or 33.62% and general and administrative expenses decreased \$236,479 or 15.33% over the prior fiscal year cost of living increases.

Included in the Statement of Revenues, Expenses, and Changes in Net Position under "Capital Contributions" are developer projects. The increase of \$19,747 over last fiscal year is due to an increase in developer activity.

**VALLEY OF THE MOON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Debt Administration

The District's long-term loan with the Westamerica Bank decreased this fiscal year to \$592,258 due to the planned FY 2018-2019 principal payment of \$182,324. The District's long-term loan with the California Infrastructure and Economic Development Bank decreased this fiscal year to \$443,429 due to the planned FY 2018-2019 principal payment of \$42,015. In accordance with Governmental Accounting Standards Board Statement No. 68 and 75, the District recorded net pension liability related to the District's CalPERS pension plan and other postemployment benefits. As of June 30, 2019, the net pension liability was \$2,525,039 and the OPEB liability was \$498,557, respectively. See Notes 6, 7, and 9 for more information on these liabilities.

Capital Assets

As reflected in the Note 5 to the financial statements, the District's total planned capital improvements over the next five fiscal years amounts to \$10,384,440. Amounts for each fiscal year are given below:

<u>Year</u>	<u>Amount</u>
2019-20	\$ 1,806,929
2020-21	2,710,000
2021-22	2,617,500
2022-23	1,770,000
2023-24	<u>1,480,011</u>
Total	<u>\$ 10,384,440</u>

Scheduled projects may be extended or shortened depending on available capital funding and project needs.

Economic Outlook and Next Years' Budget and Rates

Valley of the Moon Water District's Board of Directors adopted the fiscal year 2019-2020 budget on May 1, 2018. The budget includes the following highlights:

- ◆ Operating revenues are estimated to be \$6,337,575, reflecting an increase of \$891,909 over the previous fiscal year's budget.
- ◆ The operating expenses are estimated at \$4,509,240, not including a transfer of \$2,000,000 to the capital improvement program.
- ◆ Rate Stabilization and Capital Improvement reserves have been included and are projected to be fully funded by the end of FY 2020/21.
- ◆ The District's customer base is expected to remain stable.
- ◆ Heavy rainfall is being experienced during the winter of 18/19 which may decrease customer summer demands.

Request for additional information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. If you have any questions concerning any information provided in this report or need additional information, please contact the District office at (707) 996-1037.

BASIC FINANCIAL STATEMENTS

VALLEY OF THE MOON WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	2019
ASSETS	
Current Assets	
Cash and Investment	\$ 5,686,580
Accounts Receivable	1,520,665
Inventory	19,689
Total Current Assets	7,226,934
Noncurrent Assets	
Capital Assets	
Land	215,795
Construction in Progress	2,949,769
Utility, Plant & Equipment	38,523,062
Less: Accumulated Depreciation	(17,702,113)
Total Capital Assets, Net	23,986,513
Other Noncurrent assets	
Prepaid Post-employment Benefits	608,942
Total Other Noncurrent assets	608,942
Deferred Outflow of Resources	
Pension	784,381
Total asset and Deferred outflow of Resources	32,606,770
LIABILITIES	
Current Liabilities	
Accounts Payable	522,913
Accrued Wages	47,965
Accrued Interest	30,940
Compensated Absences	79,078
Customer Deposits	14,301
Other Payables	8,479
Long Term Liabilities, due within one year	233,270
Total Current Liabilities	936,946

The notes to the basic financial statements are an integral part of this statement.

VALLEY OF THE MOON WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

Long Term Liabilities		
Net Pension Liability		2,525,039
Net OPEB Liability		498,557
Due in more than one year		<u>802,417</u>
Total Long Term Liabilities		<u>3,826,013</u>
Total Liabilities		<u>4,762,959</u>
Deferred Inflow of Resources		
Pension		351,173
OPEB		<u>35,847</u>
Total Liabilities and Deferred Inflow of Resources		<u>5,149,979</u>
Net Position		
Net Investment in Capital Assets		23,986,513
Unrestricted		<u>3,470,278</u>
Total Net Position		<u>27,456,791</u>
Total Liabilities and Net Position and Deferred Inflow of Resources		<u>\$ 32,606,770</u>

The notes to the basic financial statements are an integral part of this statement.

VALLEY OF THE MOON WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	2019
<i>OPERATING REVENUES</i>	
Water Sales	\$ <u>6,553,989</u>
Total Operating Revenues	<u>6,553,989</u>
<i>OPERATING EXPENSES</i>	
Water Purchases	1,947,045
Plant Operating Expenses	1,146,434
General and Administrative Expenses	1,305,711
Depreciation	<u>901,636</u>
Total Operating Expenses	<u>5,300,826</u>
Operating Income (Loss)	<u>1,253,163</u>
<i>NON - OPERATING REVENUE (EXPENSES)</i>	
Other Income	88,857
Interest Earned	100,174
Interest Expense	<u>(46,991)</u>
Total Non-operating Revenue (Expenses)	<u>142,040</u>
Net Income Before Capital Contributions	<u>1,395,203</u>
<i>CAPITAL CONTRIBUTIONS</i>	
Capital Contributions	<u>258,805</u>
Total Capital Contributions	<u>258,805</u>
Change in Net Position	1,654,008
Total Net Position, Beginning of year	<u>25,802,783</u>
Total Net Position, End of year	<u>\$ <u>27,456,791</u></u>

The notes to the basic financial statements are an integral part of this statement.

**VALLEY OF THE MOON WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 6,014,500
Payments to Suppliers for Goods and Services	(2,233,467)
Payments to Employees and Related Items	<u>(2,563,997)</u>
Net cash provided by operating activities	<u>1,217,036</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	(1,322,520)
Principal Payment on Long-Term Debt	(224,339)
Interest Payments	(48,558)
Capital Contributions	<u>258,805</u>
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>(1,336,612)</u>
Cash Flows From Non-Capital and Related Financing Activities	
Other Income	<u>88,857</u>
Net Cash Flows Provided by Non-Capital and Related Financing Activities	<u>88,857</u>
Cash Flows From Investing Activities	
Interest Income	<u>100,174</u>
Net Cash Flows Provided by Investing Activities	<u>100,174</u>
Net increase (decrease) in cash & cash equivalents	69,455
Cash & cash equivalents, beginning of the year	<u>5,617,125</u>
Cash & cash equivalents, end of the year	<u><u>\$ 5,686,580</u></u>

The notes to the basic financial statements are an integral part of this statement.

**VALLEY OF THE MOON WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Reconciliation of operating income (loss) to net cash provided by operating activities

	2019
Operating income (Loss)	\$ 1,253,163
Depreciation	901,636
(Increase) Decrease in Accounts Receivable	(611,488)
(Increase) Decrease in Inventory	31,581
(Increase) Decrease in Prepaid Expenses	19,273
(Increase) Decrease in Interest Receivable	21,145
(Increase) Decrease in Deferred Outflows of Resources	141,121
Increase (Decrease) in Accounts Payable	21,307
Increase (Decrease) in Accrued Wages	10,343
Increase (Decrease) in Compensated absences	(480)
Increase (Decrease) in Customer Deposits	(306,919)
Increase (Decrease) in Other Payables	(810)
Increase (Decrease) in Net Pension Liability	(33,023)
Increase (Decrease) in Net OPEB Liability	(96,477)
Increase (Decrease) Deferred Inflow of Resources-Pension & OPEB	(133,336)
Net cash provided by operating activities	\$ 1,217,036

The notes to the basic financial statements are an integral part of this statement.

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Valley of the Moon Water District (the District) was formed in 1960 through an election under Division 12, Section 30000 of the California State Water Code for the primary purpose of providing adequate quantities of potable water to all properties located within the District.

The District accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments, in accordance with the uniform system of accounts for water utility special enterprise Districts as prescribed by the State Controller in compliance with the government code of the State of California.

B. Method of Accounting

The District follows the accrual basis of accounting. The District's policy is to record all assets, liabilities, revenues, and expenses on the accrual basis of accounting and the flow of economic resources measurement focus. Under this method, revenue is recognized when earned and expenses are recognized when the related liability is incurred. Receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

C. Budgetary Reporting

The Board of Directors adopts the budget by passage of a resolution prior to July 1st, for the new fiscal year. The general manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total appropriations must be approved by the Board of Directors.

D. Inventories

Materials, supplies, and gasoline are valued at cost using the first-in-first-out method.

E. Capital Assets

Land, structures, and improvements are recorded at cost at the time of purchase, or if constructed, at the completion of the construction. Contributed assets are recorded at their fair value at the time of transfer to the District. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Specifically, transmission and distribution mains are depreciated over 67 years; wells, springs, and tunnels over 30 years; reservoirs and tanks over 50 years; equipment over 5-25 years; meters over 20 years; and structures and improvements over 25 years.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

G. Proprietary Fund Accounting

The District has one fund which is considered a proprietary fund. Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as nonoperating expenses.

H. Flexible Benefits Plan

The District has established a benefits plan including a Dependent Care Expense Reimbursement Plan and a Medical Care Expense Reimbursement Plan. Pre-tax premium elections under the plan are intended to qualify for the exclusion from income provided by Section 125 of the Internal Revenue Code. At present, this plan is only used for medical premiums.

I. Comparative Data

Comparative total data for the prior fiscal year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the District's financial position, operations, and cash flows.

J. Contingent Liabilities

The District is subject to various lawsuits and claims involving public liability and other actions incidental to the ordinary course of District operations. To the extent the outcome of such litigation may be determined to result in financial loss to the District, in the opinion of District management, any potential liability for these actions is adequately provided for in the basic financial statements.

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - CASH AND INVESTMENTS

Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not its use is restricted under the terms of the District debt instruments or District agreements.

Statement of Net Position:
Cash and Investments \$ 5,686,580

Cash and Investments as of June 30, 2019 consists of the following:

Cash on Hand	\$	500
Cash in Banks		557,883
Investments		<u>5,128,197</u>
Total Cash and Investments	\$	<u>5,686,580</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for Valley of the Moon Water District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	NA	None	\$ 65 million
Certificates of Deposit	NA	None	\$ 250,000
Sonoma County Pooled Investment Fund	NA	None	-
Passbook Savings Accounts	NA	None	-
U.S. Treasury Obligations	NA	None	-

Disclosures Relating to 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 the market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH AND INVESTMENTS - CONT'D

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>					
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Month</u>	<u>36-48 Months</u>	<u>49-60 Months</u>	<u>More than 60 Month</u>
State Investment Pool (LAIF)	\$ 1,140,427	\$ 1,140,427	-	-	-	-	-
Sonoma County Investment Pool	<u>3,987,770</u>	<u>3,987,770</u>	-	-	-	-	-
Total	<u>\$5,128,197</u>	<u>\$5,128,197</u>	-	-	-	-	-

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>AAA</u>	<u>Not Rated</u>
State Investment Pool (LAIF)	\$ 1,140,427	NA	\$ -	\$ -	\$ -	\$ 1,140,427
Sonoma County Investment Pool	<u>3,987,770</u>	NA	-	-	-	<u>3,987,770</u>
Total	<u>\$ 5,128,197</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,128,197</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than LAIF and Sonoma County Investment Pool).

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

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH AND INVESTMENTS - CONT'D

As of June 30, 2019, \$956,586 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for 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 LAIF and the Sonoma County Investment Pool).

Investment in State and County Investment Pools

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) and Sonoma County Investment Pool that are regulated by the California Government Code under the oversight of the Treasurers of the County of Sonoma and the State of California. The fair value of the District's investment in these pools are reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by the County of Sonoma and LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County of Sonoma and LAIF, which are recorded on an amortized cost basis.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and,
- Level 3: Investments reflect prices based upon unobservable sources

The District's investments are exempt from the classifications above.

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 - CAPITAL ASSETS

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

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2019</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 215,795	\$ -	\$ 215,795
Construction in progress	<u>1,653,939</u>	<u>1,295,830</u>	<u>2,949,769</u>
Total capital assets not being depreciated	<u>1,869,734</u>	<u>1,295,830</u>	<u>3,165,564</u>
<i>Capital assets, being depreciated:</i>			
Source of supply	9,174,967	-	9,174,967
Transmission and distribution	27,128,114	-	27,128,114
General plan	<u>2,193,291</u>	<u>26,690</u>	<u>2,219,981</u>
Total capital assets being depreciated	38,496,372	26,690	38,523,062
<i>Less accumulated depreciation for:</i>	<u>(16,800,477)</u>	<u>(901,636)</u>	<u>(17,702,113)</u>
Total capital assets, being depreciated, net	<u>21,695,895</u>	<u>(874,946)</u>	<u>20,820,949</u>
Governmental activities capital assets, net	<u>\$ 23,565,629</u>	<u>\$ 420,884</u>	<u>\$ 23,986,513</u>

NOTE 4 - OPERATING LEASES AND COMMITMENTS

A. Pitney Bowe

The District is obligated to make lease payments for office equipment (Pitney Bowes) until June 2021. The following is a schedule by years of future minimum rental payments required under the operating lease as of June 30, 2019:

<u>Fiscal Year June 30</u>	<u>Amounts</u>
2020	\$286
2021	\$286

B. Larbre Well Lease

The District also entered into a well lease agreement (Larbre Well Lease) whereby the District is purchasing water from the owner. The District must maintain average monthly purchases of at least \$2,000 for the period of December 1 to November 30. The lease was amended in December 2009, and expired on December 1, 2014, and is now month-to-month. For the current fiscal year, \$26,393 was used for purchases under this agreement and \$29,041 was used for water purchases in the prior fiscal year.

A new Water Well Agreement is made and entered into effective August 07, 2018, by and between the District and Suzanne Larbre, trustee of the Raymond J. Larbre and Suzanne Larbre Revocable Trust ("LARBRE"). Larbre also grants to the District an easement for the right of entry and egress to and from the well site for the purpose of operating and extracting water from the well and performance of normal routine maintenance and repairs and right to install at the well site, any additional equipment necessary for proper and satisfactory operation of said well, including, but not limited to, electrical power and appurtenant controls, chlorination or other treatment equipment, and supervisory control equipment permitting remote operation of the well.

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 - OPERATING LEASES AND COMMITMENTS - CONT'D

B. Larbre Well Lease - cont'd

The District shall pay Larbre a minimum of twenty-four thousand dollars (\$24,000) per year commencing from the date of this agreement, or the actual purchase water rate times the number of acre-feet of water passing through the meter in the pipeline connecting the well pump to the District's water main in Arnold Drive, whichever is greater. Payment made during current fiscal year is \$55,831.

NOTE 5 - CAPITAL IMPROVEMENT PROGRAM

The District has developed a capital improvement program for water projects including water mains, wells, storage tanks, and pump stations. The list of improvements has been developed by District staff and consulting engineers. Projects have been identified from a series of annual capital improvement program updates developed by District staff from the Strategic Water Supply Plan prepared by JONWRM, from a Water Master Plan and a Water Storage Plan prepared by Brelje & Race, and from a Master Plan for Ground Water Development and Management by Luhdorff and Scalmanini. Projects are phased in over a five-year period, although this is not a rigid schedule and may be extended or shortened somewhat depending on available capital funding and project needs. Projected capital improvements over the next five years are as follows:

<u>Fiscal Year</u>	<u>Per Updated Budget 18/19</u>
2019-20	\$ 1,806,929
2020-21	\$ 2,710,000
2021-22	\$ 2,617,500
2022-23	\$ 1,770,000
2023-24	\$ 1,480,011

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2019

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Due Within One Year</u>
Certificates of participation	\$ 774,582	\$ -	\$ (182,324)	\$ 592,258	\$ 189,923
CIEDB loan payable	485,444	-	(42,015)	443,429	43,347
Net pension liability	2,558,062	-	(33,023)	2,525,039	-
Net OPEB liability	595,034	-	(96,477)	498,557	-
Compensated absences	<u>79,558</u>	<u>-</u>	<u>(480)</u>	<u>79,078</u>	<u>79,078</u>
Total Long-term liabilities	<u>\$ 4,492,680</u>	<u>\$ -</u>	<u>\$ (354,319)</u>	<u>\$ 4,138,361</u>	<u>\$ 312,348</u>

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - LONG-TERM DEBT - CONT'D

The details of the long-term debt are as follows:

A. Certificates of Participation/1999 Installment Purchase Contract

In September 1999, the District sold a \$2,833,992 Certificates of Participation Note to Sonoma Valley Bank (now Westamerica Bank) in order to finance the initial two years of the Capital Improvement Program. Total annual payments (principal and interest) are \$213,638 with interest accruing at 4%. The note matures on September 1, 2021. During the 2010/11 fiscal year, the District renegotiated the terms of the Note to lower the interest rate from 5.25% to 4%.

The remaining debt service payments are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2020	\$ 189,923	\$ 23,715	\$ 213,638
2021	197,520	16,118	213,638
2022	<u>204,815</u>	<u>8,217</u>	<u>213,032</u>
Total	<u>\$ 592,258</u>	<u>\$ 48,050</u>	<u>\$ 640,308</u>

B. CIEDB Loan Payable/Enterprise Fund Installment Sale Agreement

On June 15, 2008, the District entered into an installment sale agreement with California Infrastructure and Economic Development Bank for \$810,000. Proceeds of this agreement were used for the construction portion of the Well No. 5 Replacement Project, which includes replacement of an abandoned production well, construction of a well house and security fence, and acquisition and installation of a pump, appurtenances, a filtration system, and a disinfection system. Interest accrues on the agreement at 3.17% and repayments began on February 1, 2009. The agreement matures on August 1, 2027.

The remaining debt service payments are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2020	\$ 43,347	\$ 13,369	\$ 56,716
2021	44,721	11,974	56,695
2022	46,139	10,533	56,672
2023	47,601	9,048	56,649
2024	49,110	7,515	56,625
2025-2028	<u>212,511</u>	<u>13,736</u>	<u>226,247</u>
Total	<u>\$ 443,429</u>	<u>\$ 66,175</u>	<u>\$ 509,604</u>

C. Compensated Absences

Included in accrued liabilities are accruals for accumulated sick leave and fully vested accumulated vacation pay. It is District policy to allow employees with greater than 15 years of service to receive 50% payment of their accumulated sick leave upon retirement, or have 100% applied to their California Public Employees Retirement System (CalPERS) retirement credit, and to pay no accumulated sick leave upon termination under other circumstances (such as employees who have less than 15 years of service). However, for employees with more than 10 consecutive years of service, those individuals can convert all unused sick leave hours to CalPERS.

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

A. General Information about the Pension Plan

All qualified employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2% to 2.5%	1% to 2%
Required employee contribution	10.614%	6.25%
Required employer contribution	7.408%	6.842%

C. Contributions

Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal 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 District's contributions to the Plan for the fiscal year ended was \$245,295.

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the net position liability of the Plan of \$2,525,039. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 - EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - CONT'D

The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

Proportion - June 30, 2018	0.06700%
Proportion - June 30, 2017	0.06490%
Change - Increase (Decrease)	0.00002%

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Reporting Date	June 30, 2019
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018
Valuation Date	June 30, 2017

D. Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Increase(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/17 (VD)	\$ 8,526,729	\$ 5,968,667	\$ 2,558,062
Changes Recognized for the Measurement Period			
• Difference in proportion (TPL and FNP)	(141,266)	(154,916)	13,650
• Service Cost	213,125	-	213,125
• Interest on the Total Pension Liability	595,647	-	595,647
• Changes in benefit terms	350	-	350
• Change in assumptions	(89,812)	-	(89,812)
• Difference between Expected and Actual Experience	104,357	-	104,357
• Plan to Plan Resource Movement	-	61,539	(61,539)
• Contributions from the Employers	-	240,672	(240,672)
• Contributions from Employees	-	92,580	(92,580)
• Net Investment Income	-	540,153	(540,153)
• Benefit Payments, including Refunds of Employee Contributions	(384,221)	(384,221)	-
• Administrative Expenses	-	(9,718)	9,718
• Proportion Credit	-	(36,432)	36,432
• Other miscellaneous expense	18,454	-	18,454
Net Changes during 2017-18	316,634	349,657	(33,023)
Balance at: 6/30/18 (MD)	\$ 8,843,363	\$ 6,318,324	\$ 2,525,039

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 - EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - CONT'D

E. Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, 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 appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of 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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. Amortization of Deferred Outflows and Deferred Inflows of Resources under GASB Statement No. 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings on investments	5 years straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining amortization period.

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 - EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - CONT'D

E. Discount Rate - cont'd

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount rate -1% 6.15%	Current Discount rate 7.15%	Discount rate +1 8.15%
Plan's net pension liability/(asset)	\$ 3,721,291	\$ 2,525,039	\$ 1,537,553

G. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$288,443. As of June 30, 2019, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 245,295	\$ -
Changes in assumptions	228,730	55,128
Difference between expected and actual experience	75,705	26,200
Difference in actual contribution and proportionate share of contribution	38,568	55,531
Net differences between projected and actual earnings on pension plan investments	196,083	214,314
Total	\$ 784,381	\$ 351,173

\$245,295 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Amount
2020	\$ 173,173
2021	\$ 88,283
2022	\$ (55,796)
2023	\$ (17,747)
Total	\$ 187,913

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - NET POSITION

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources less liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The District provides certain health insurance benefits, in accordance with memoranda of understanding, to retired employees as detailed below:

All employees who retire after age 50 with at least 5 years of CalPERS service will receive the minimum health premium established under the Public Employees' Medical and Hospital Care Act (the PEMHCA Contribution). The minimum premium is \$122 per month in 2015, and is expected to increase in future years.

Employees hired before July 1, 2010, retiring at age of 50 or later with at least 5 years of District service, 10 years CalPERS service, and retire while in District service will receive the Additional Benefit Amount described below. Employees hired on or after July 1, 2010 are not eligible for the Additional Benefit Amount. However, they will be eligible for the PEMHCA Contribution, as described above.

Retirees under the age of 65

Single - \$452.68 plus 90% of the rate increase in Kaiser Rate, with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

2 Party (both under 65) - \$822.20 plus 50% of the rate increase in Kaiser Rate, with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

Family (all under 65) - \$1,058.23 plus 50% of the rate increase in Kaiser Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

Retirees over the age of 65

Single - \$253.61 plus 90% of the rate increase in Kaiser Supplement / Managed Medicare Monthly Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

2 Party (both over 65) - \$507.21 plus 50% of the rate increase in Kaiser Supplement / Managed Medicare Monthly Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

2 Party (one over 65) - \$706.82 plus 50% of the rate increase in respective Kaiser rates with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 -OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONT'D

Family (two over 65) - \$760.82 plus 50% of the rate increase in Kaiser Supplement / Managed Medicare Monthly Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

Family (one over 65) - \$959.89 plus 50% of the rate increase in respective Kaiser rates with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

The monthly amounts shown are pro-rated if the employee retirees with less than 20 years of service, including non-District but PERS-eligible service outside the District. After 10 years of service, the amount payable is 50%, 55% after 11 years, 60% after 12 years, etc.

Each retiree shall contribute the difference between his/her CalPERS Health Premium and the District paid PEMHCA Contribution and Additional Benefit Amount. In order to be eligible to receive health benefits through CalPERS upon retirement, District employees must meet the following definition of "annuitant" under CalPERS law:

- 1) Employees must be a member of CalPERS
- 2) Employees must be enrolled in the CalPERS Health Program; and
- 3) Employees must retire within 120 days of separation from employment with the District and receive a monthly retirement allowance from CalPERS.

Dental and vision benefits: If the retiree with at least 20 years of District service, 100% of lifetime dental and vision premiums are paid for the retiree, spouse, and dependents.

Actuarial assumption

The District has determined that 6.5% is a reasonable estimate for the long-term expected rate of return on the plan's assets. A cash flow projection shows that if the assets in the irrevocable trust earn 6.5% per year, then the assets will always be sufficient to pay benefits to retired employees. Therefore, under the requirements of GASB Statement No. 75, 6.5% is an appropriate discount rate for these benefits.

The following assumptions as of July 1, 2017 were selected by the District in accordance with the requirements of GASB 75.

Long-Term Expected Rate of Return on Investments:

The long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. The asset class percentage are taken from the current composition of the CERBT trust. And the expected yields are taken from a recent CalPERS publication for the Pension Fund:

	<u>% of Fund</u>	<u>Real return, next 10 years</u>
Global equity	57%	5.25%
Fixed income	27%	0.99%
Treasury securities	5%	0.45%
Real estate trusts	8%	4.50%
Commodities	3%	3.90%
	100%	

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 -OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONT'D

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability(Assets)
Balance at June 30, 2018	\$ 1,692,841	\$ 1,097,807	\$ 595,034
Changes In the Fiscal Year			
Service Cost	38,501	-	38,501
Interest	105,008	-	105,008
Contribution from the Employer	-	154,677	(154,677)
Net Investment Income	-	85,894	(85,894)
Benefit Payments	(154,677)	(154,677)	-
Administrative Expenses	-	(585)	585
Net Changes	<u>(11,168)</u>	<u>85,309</u>	<u>(96,477)</u>
Balance at June 30, 2019	<u>\$ 1,681,673</u>	<u>\$ 1,183,116</u>	<u>\$ 498,557</u>

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current discount rate:

	Discount Rate <u>5.50%</u>	Discount Rate <u>6.50%</u>	Discount Rate <u>7.50%</u>
Net OPEB Liability (Assets)	\$ <u>710,839</u>	\$ <u>498,557</u>	\$ <u>324,887</u>

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rate that are 1-percentage point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Decrease 1% <u>4.0% to 4.50%</u>	Trend Rate <u>5.0% to 5.5%</u>	Increase 1% <u>6.0% to 6.50%</u>
Net OPEB liability (Assets)	\$ <u>329,096</u>	\$ <u>498,557</u>	\$ <u>706,678</u>

OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, The District's deferred outflows of resources and deferred inflows of resources to OPEB from the following sources are:

	Deferred Outflow Of Resources	Deferred Inflow Of Resources
Net differences between projected and actual earnings on plan investments	\$ -	\$ 35,847
Total	<u>\$ -</u>	<u>\$ 35,847</u>

**VALLEY OF THE MOON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 -OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONT'D

Amounts reported as deferred outflows/inflow of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ended June 30,	Deferred Outflow/(Inflows) of Resources
2020	\$ (10,979)
2021	\$ (10,979)
2022	\$ (10,977)
2023	\$ (2,912)
2024	\$ -
Total	<u>\$ (35,847)</u>

NOTE 10 - DEFERRED COMPENSATION PLANS

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The District matches the employees' contribution up to a maximum of \$100 per month. Part-time employees are eligible for the District's match on a pro-rata basis. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (AIG Valic and ING) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

NOTE 11 - SUBSEQUENT EVENTS

The District has evaluated operations for the period of time from its year end June 30, 2019 through January 24, 2020, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY OF THE MOON WATER DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019 (LAST 10 YEARS*)

Employer Fiscal Year End	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the Net Pension Liability	0.06700%	0.06490%	0.06430%	0.06540%	0.02119%
Proportion share of NPL	\$ 2,525,039	\$ 2,558,062	\$ 2,232,821	\$ 1,792,997	\$ 1,318,413
Covered Employee Payroll	1,385,647	872,211	748,727	709,417	665,327
Proportionate share of NPL as a % of Covered employee payroll	182.28 %	293.28 %	298.22 %	252.74 %	198.16 %
Plan fiduciary net position as a % of total pension liability	71.45 %	70.00 %	71.19 %	76.71 %	79.82 %

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

**VALLEY OF THE MOON WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTION - PENSION
FOR THE YEAR ENDED JUNE 30, 2019 (LAST 10 YEARS*)**

Employer Fiscal Year End	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractual required contribution (actuarially Determined)	\$ 245,295	\$ 173,332	\$ 69,788	\$ 132,577	\$ 82,498
Contributions in relation to the actuarially Determined Contributions	<u>(245,295)</u>	<u>(173,332)</u>	<u>(69,788)</u>	<u>(132,577)</u>	<u>(82,498)</u>
Contribution Deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	\$ 1,385,647	\$ 872,211	\$ 748,727	\$ 709,417	\$ 665,327
Contributions as a Percentage of covered employee payroll	17.70 %	19.87 %	9.32 %	18.69 %	12.40 %

Notes to Schedule of Plan Contributions

The actuarial methods and assumptions used to set the actuarially determined contributions for the Fiscal Year 2017-18 were from the June 30, 2016 public agency valuation report.

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Payroll Growth	3.00%
Investment Rate of Return	7.15%, net of administrative expenses
Mortality	The mortality assumptions are based on mortality rates resulting from the CalPERS Experience Study adopted by the CalPERS Board, first used the CalPERS Experience Study adopted by the CalPERS Board, first used mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale BB.

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

VALLEY OF THE MOON WATER DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

Reporting Date	June 30, 2019	June 30, 2018
Measurement Date	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total OPEB liability		
Service cost	\$ 38,501	\$ 37,380
Interest on the total	105,008	103,787
Employer contributions	-	(90,109)
Net investment income	-	(104,895)
Benefit payments	(154,677)	-
Administrative Expense	-	532
Net change in total OPEB liability	<u>(11,168)</u>	<u>(53,305)</u>
Total OPEB liability - beginning	<u>1,692,841</u>	<u>648,339</u>
Total OPEB liability - ending	<u>1,681,673</u>	<u>595,034</u>
Plan's fiduciary net position		
Contributions - employer	154,677	-
Contributions - employee	-	-
Net investment income	85,894	-
Benefit payments, including implicit subsidies net of retiree contributions	(154,677)	-
Administrative expense	<u>(585)</u>	<u>-</u>
Net change in plan's fiduciary net position	85,309	-
Plan's Fiduciary Net Position - beginning	<u>1,097,807</u>	<u>-</u>
Plan's Fiduciary Net Position - ending	<u>1,183,116</u>	<u>-</u>
Net OPEB Liability - ending	<u>\$ 498,557</u>	<u>\$ -</u>
Plan's fiduciary net position as a percentage of the Total OPEB Liability	70.35%	64.85%
Covered employee payroll	\$ 951,934	949,129
Plan net OPEB liability as percentage of covered employee payroll	52.37%	62.69%

*Fiscal year 2018 was the first year of implementation, therefore only two years are shown.

**VALLEY OF THE MOON WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTION - OPEB
FOR THE YEAR ENDED JUNE 30, 2019**

Fiscal Year Ended	June 30, 2019
Actuarially determined contribution (ADC)	\$ 154,677
Contributions in relation to the ADC	<u>154,677</u>
Contribution deficiency (excess)	<u><u>-</u></u>
Covered - employee payroll	\$ 951,934
Contributions as a % of covered-employee payroll	16.25 %

COMPLIANCE SECTION

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

To the Board of Directors
Valley of the Moon Water District
EL Verano, CA

We have audited, in accordance with the 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 of the Moon Water District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated **January 24, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies presented in the schedule of findings and responses section as an item 2019-01 to be significant deficiency in the internal control.

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

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Harshwal & Company LLP

Oakland, California
January 24, 2020

VALLEY OF THE MOON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULT

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness?	Yes
• Noncompliance material to financial statements noted?	No

VALLEY OF THE MOON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-001 - Timely Filing with Proper documentation (Significant Deficiency)

Condition: The quarterly 941 payments for District's first and third quarters were not submitted by the deadline which is the last day of the month following the end of the quarter, as a result penalty amounting \$586 and \$482 incurred respectively.

Criteria or Specific Requirement: Filings and payments to Department of the Treasury - IRS for taxes must be submitted by the last day of the month following the end of the quarter.

Cause: Late filing and payments were an oversight on the part of the District due to lack of adequate internal controls.

Effect: The District is not in compliance with IRS rules regarding to the 941 form payments.

Auditors' Recommendation: Management should ensure that the preparing and paying taxes be done on a timely manner so that the tax report and payment will be submitted on or before the deadline and for the correct amount.

Management Response:

Valley of the Moon Water District

In August 2018 we received a notice that we had a penalty for a late payroll tax payment Q1 of 2018. With our payroll taking place biweekly on Thursdays, EFTPS payments need to be made by Wednesday of the following week. On the EFTPS site you are able to make changes to a scheduled payment if you schedule more than two business days out. In Q1 2018 I had scheduled a payroll tax payment on a day after the Wednesday because of an error that had taken place on that payroll. This caused the late payroll tax payment.

When I received the notice in August 2018, I realized I had already paid the payroll taxes late on one payroll in that quarter as well. So, we received a penalty in December for the Q3 late payment as well.

Since the notice received in August 2018, I now schedule out the payroll tax payment as soon as the ACH is approved for payroll to avoid any future penalties. We have not had any penalties since then.

**VALLEY OF THE MOON WATER DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2019**

Prior Year Audit Recommendations		Status
2018-001	Deficiency of journal entries	Resolved
2018-002	Journal entry posted in incorrect fiscal year	Resolved
2018-003	Deficiency in cash receipts	Resolved
2018-004	An over limit fee for credit card purchases	Resolved
2018-005	Lack of timely financial reporting	Resolved