

VALLEY OF THE MOON WATER DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2020



VALLEY OF THE MOON WATER DISTRICT  
TABLE OF CONTENTS  
JUNE 30, 2020

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	01
<b>Management's Discussion and Analysis</b> .....	04
<b>Basic Financial Statements</b>	
Statement of Net Position.....	08
Statement of Revenues, Expenditures, and Changes in Net Position.....	09
Statement of Cash Flows.....	10
Notes to the Financial Statements.....	12
<b>Required Supplementary Information</b>	
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios.....	30
Schedule of Plan Contributions - Pension.....	31
Schedule of Changes in the net OPEB Liability and Related Ratios.....	32
Schedule of Plan Contributions - OPEB.....	33
<b>Compliance Section</b>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	35
<b>Schedule of Findings and Responses</b> .....	37
<b>Summary Schedule of Prior Year Audit Finding</b> .....	39

## 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 financial statements of the Valley of the Moon Water District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2020, and the respective changes in financial position, and cash flows thereof 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 on pages 4 - 6, 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 30 - 33 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 20, 2022, 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 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 Valley of the Moon Water District's internal control over financial reporting and compliance.

*Harshmal & Company LLP*

Oakland, California  
January 20, 2022

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

**VALLEY OF THE MOON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

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, 2020. 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)	
	2020	2019	Amount	%
<b>ASSETS &amp; DEFERRED OUTFLOW</b>				
Current assets	\$ 6,207,617	\$ 7,226,934	\$ (1,019,317)	(14.10)%
Capital assets, net	25,241,907	23,986,513	1,255,394	5.23 %
Other non-current assets	430,179	608,942	(178,763)	(29.36)%
Deferred outflow - pension and OPEB	<u>541,765</u>	<u>784,381</u>	<u>(242,616)</u>	<u>(30.93)%</u>
Total assets & deferred outflow	<u>32,421,468</u>	<u>32,606,770</u>	<u>(185,302)</u>	<u>(0.57)%</u>
<b>LIABILITIES &amp; DEFERRED INFLOW</b>				
Current liabilities	1,097,768	936,946	160,822	17.16 %
Long-term liabilities	3,718,015	3,826,013	(107,998)	(2.82)%
Deferred inflow - pension	277,362	351,173	(73,811)	(21.02)%
Deferred inflow - OPEB	<u>107,991</u>	<u>35,847</u>	<u>72,144</u>	<u>201.26 %</u>
Total liabilities & deferred inflow	<u>5,201,136</u>	<u>5,149,979</u>	<u>51,157</u>	<u>0.99 %</u>
<b>NET POSITION</b>				
Net investment in capital assets	24,841,825	23,986,513	855,312	3.57 %
Unrestricted	<u>2,378,507</u>	<u>3,470,278</u>	<u>(1,091,771)</u>	<u>(31.46)%</u>
Total net position	<u>\$ 27,220,332</u>	<u>\$ 27,456,791</u>	<u>\$ (236,459)</u>	<u>(0.86)%</u>

**VALLEY OF THE MOON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

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 \$5,241,127 in investments included in "Current Assets" shown in the table on the previous page \$1,167,264 in LAIF and \$4,073,863 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)	
	2020	2019	Amount	%
<b>OPERATING REVENUES:</b>				
Sales of water and services charges	\$ <u>6,637,018</u>	\$ <u>6,553,989</u>	\$ <u>83,029</u>	<u>1.27</u> %
Total operating revenues	<u>6,637,018</u>	<u>6,553,989</u>	<u>83,029</u>	<u>1.27</u> %
<b>OPERATING EXPENSES</b>				
Water purchases	2,288,038	1,947,045	340,993	17.51 %
Plant operating expenses	1,274,999	1,146,434	128,565	11.21 %
General & administrative expenses	<u>3,338,878</u>	<u>1,305,711</u>	<u>2,033,167</u>	<u>155.71</u> %
Total operating expenses	<u>6,901,915</u>	<u>4,399,190</u>	<u>2,502,725</u>	<u>56.89</u> %
Operating income before depreciation	(264,897)	2,154,799	(2,419,696)	(112.29)%
Depreciation	<u>954,641</u>	<u>901,636</u>	<u>53,005</u>	<u>5.88</u> %
Operating income (loss)	<u>(1,219,538)</u>	<u>1,253,163</u>	<u>(2,472,701)</u>	<u>(197.32)</u> %
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Nonoperating revenue/(expenses)	86,459	142,040	(55,581)	(39.13)%
Capital contributions	<u>641,626</u>	<u>258,805</u>	<u>382,821</u>	<u>147.92</u> %
Change in net position	<u>\$ (491,453)</u>	<u>\$ 1,654,008</u>	<u>\$ (2,145,461)</u>	<u>(129.71)</u> %

The District's operating revenue increased by \$83,029 or 1.27% 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 \$340,993 or 17.51% 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 \$128,565 or 11.21% and general and administrative expenses increased \$2,033,167 or 155.71% 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 \$382,821 over last fiscal year is due to an increase in developer activity.

**VALLEY OF THE MOON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**Debt Administration**

The District's long-term loan with the Westamerica Bank decreased this fiscal year to \$402,940 due to the planned FY 2019-2020 principal payment of \$189,318. The District's long-term loan with the California Infrastructure and Economic Development Bank decreased this fiscal year to \$400,083 due to the planned FY 2019-2020 principal payment of \$43,346. 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, 2020, the net pension liability was \$2,774,735 and the OPEB liability was \$382,498, 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 \$10,575,195. Amounts for each fiscal year are given below:

<u>Year</u>	<u>Amount</u>
2020-21	\$ 3,642,407
2021-22	1,413,393
2022-23	1,176,643
2023-24	918,456
2024-25	<u>3,424,296</u>
Total	<u>\$ 10,575,195</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 2020-2021 budget on May 19, 2020. The budget includes the following highlights:

- ◆ Operating revenues are estimated to be \$7,015,482, reflecting an increase of \$361,029 over the previous fiscal year's budget.
- ◆ The operating expenses are estimated at \$5,041,313, not including a transfer of \$2,100,000 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 19/20 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, 2020**

**ASSETS**

Cash and investment	\$ 5,585,324
Accounts receivable	541,965
Inventory	41,319
Prepaid expenses	39,009
Capital assets, net	25,241,907
Prepaid post-employment benefits	<u>430,179</u>
Total assets	<u>31,879,703</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources - pension	512,708
Deferred outflows of resources - OPEB	<u>29,057</u>
Total deferred outflows of resources	<u>541,765</u>
Total assets and deferred outflows of resources	<u>32,421,468</u>

**LIABILITIES**

Accounts payable	539,090
Payroll liabilities	53,654
Accrued interest	18,716
Other payables	5,638
Customer deposits	36,523
Compensated absences	201,906
Long-term debts, due within one year	242,241
Long-term debts, due in more than one year	560,782
Net pension liability	2,774,735
Net OPEB liability	<u>382,498</u>
Total liabilities	<u>4,815,783</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources - pension	277,362
Deferred inflows of resources - OPEB	<u>107,991</u>
Total deferred inflows of resources	<u>385,353</u>
Total liabilities and deferred inflows of resources	<u>5,201,136</u>

**NET POSITION**

Net investment in capital assets	24,841,825
Unrestricted	<u>2,378,507</u>
Total net position	<u>27,220,332</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 32,421,468</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, 2020**

**OPERATING REVENUES**

Water sales	\$ <u>6,637,018</u>
Total operating revenues	<u>6,637,018</u>

**OPERATING EXPENSES**

Water purchases	2,288,038
Plant operating expenses	1,274,999
General and administrative expenses	3,338,878
Depreciation	<u>954,641</u>
Total operating expenses	<u>7,856,556</u>

Operating income (loss)	<u>(1,219,538)</u>
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**NONOPERATING REVENUES (EXPENSES)**

Other income	60,432
Interest earned	113,064
Gain (loss) on sale/disposal of capital assets	(60,139)
Interest expense	<u>(26,898)</u>
Total nonoperating revenue (expenses)	<u>86,459</u>

Net income before capital contributions	<u>(1,133,079)</u>
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**CAPITAL CONTRIBUTIONS**

Capital contributions	<u>641,626</u>
Total capital contributions	<u>641,626</u>

Change in net position	<u>(491,453)</u>
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Net position, at beginning of year	27,456,791
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Net position, restatement	<u>254,994</u>
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Net position, at beginning of year, restated	<u>27,711,785</u>
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Net position, end of year	<u><u>\$ 27,220,332</u></u>
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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, 2020**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers	\$ 7,555,079
Payments to suppliers for goods and services	(1,997,486)
Payments to employees and expenses	<u>(3,932,011)</u>
Net cash provided by operating activities	<u>1,625,582</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	(2,270,174)
Principal payment on long-term debt	(232,664)
Interest payments	(39,122)
Capital contributions	<u>641,626</u>
Net cash used by capital and related financing activities	<u>(1,900,334)</u>

**CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES**

Other income	<u>60,432</u>
Net cash provided by noncapital and related financing activities	<u>60,432</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	<u>113,064</u>
Net cash provided by investing activities	<u>113,064</u>
Net decrease in cash and cash equivalents	(101,256)
Cash and cash equivalents, beginning of the year	<u>5,686,580</u>
Cash and cash equivalents, end of the year	<u><u>\$ 5,585,324</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, 2020**

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ (1,219,538)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	954,641
Changes in assets and liabilities:	
(Increase) Decrease in accounts receivable	978,700
(Increase) Decrease in inventory	(21,630)
(Increase) Decrease in prepaid expenses	(39,009)
(Increase) Decrease in prepaid post-employment benefits	178,763
(Increase) Decrease in deferred outflows of resources - pension and OPEB	242,616
Increase (Decrease) in accounts payable	271,171
Increase (Decrease) in accrued wages	5,689
Increase (Decrease) in compensated absences	(2,841)
Increase (Decrease) in customer deposits	22,222
Increase (Decrease) in other payables	122,828
Increase (Decrease) in net pension liability	249,696
Increase (Decrease) in net OPEB liability	(116,059)
Increase (Decrease) in deferred inflows of resources - pension and OPEB	<u>(1,667)</u>
Net cash provided by operating activities	<u>\$ 1,625,582</u>

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

VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020

**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 acquisition 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 THE FINANCIAL STATEMENTS  
 JUNE 30, 2020

**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.

**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	\$	5,585,324

Cash and Investments as of June 30, 2020 consists of the following:

Cash on Hand	\$	500
Cash in Banks		343,697
Investments		<u>5,241,127</u>
Total Cash and Investments	\$	<u><u>5,585,324</u></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.

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 - CASH AND INVESTMENTS - CONT'D**

<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:

<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)	\$ 1,167,264	\$ 1,167,264	\$ -	\$ -	\$ -	\$ -	\$ -
Sonoma County Investment Pool	<u>4,073,863</u>	<u>4,073,863</u>	-	-	-	-	-
Total	<u>\$ 5,241,127</u>	<u>\$ 5,241,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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)	\$ 1,167,264	NA	\$ -	\$ -	\$ -	\$ 1,167,264
Sonoma County Investment Pool	<u>4,073,863</u>	NA	-	-	-	<u>4,073,863</u>
Total	<u>\$ 5,241,127</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,241,127</u>



**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 - CASH AND INVESTMENTS - CONT'D**

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.

As of June 30, 2020, \$324,962 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 is 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.

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 - CASH AND INVESTMENTS - CONT'D**

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.

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 215,795	\$ 294,885	\$ -	\$ -	\$ 510,680
Construction in progress	<u>2,949,769</u>	<u>2,142,889</u>	<u>-</u>	<u>(2,746,739)</u>	<u>2,345,919</u>
Total capital assets not being depreciated	<u>3,165,564</u>	<u>2,437,774</u>	<u>-</u>	<u>(2,746,739)</u>	<u>2,856,599</u>
<i>Capital assets, being depreciated:</i>					
Source of supply	9,174,967	-	-	267,424	9,442,391
Transmission and distribution	27,128,114	19,418	(67,561)	1,491,946	28,571,917
General plan	<u>2,219,981</u>	<u>47,728</u>	<u>-</u>	<u>692,484</u>	<u>2,960,193</u>
Total capital assets being depreciated	38,523,062	67,146	(67,561)	2,451,854	40,974,501
<i>Less accumulated depreciation for:</i>	<u>(17,702,113)</u>	<u>(954,641)</u>	<u>67,561</u>	<u>-</u>	<u>(18,589,193)</u>
Total capital assets, being depreciated, net	<u>20,820,949</u>	<u>(887,495)</u>	<u>-</u>	<u>2,451,854</u>	<u>22,385,308</u>
Governmental activities capital assets, net	<u>\$ 23,986,513</u>	<u>\$ 1,550,279</u>	<u>\$ -</u>	<u>\$ (294,885)</u>	<u>\$ 25,241,907</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 and requires minimal future rental payments of \$286.

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 4 - OPERATING LEASES AND COMMITMENTS**

***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, \$11,034 was used for purchases under this agreement and \$26,393 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.

***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.

**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 the District staff and consulting engineers. Projects have been identified from a series of annual capital improvement program updates developed by the 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 19/20</u>
2020-21	\$ 3,642,407
2021-22	\$ 1,413,393
2022-23	\$ 1,176,643
2023-24	\$ 918,456
2024-25	\$ 3,424,296

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**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, 2020

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Certificates of participation	\$ 592,258	\$ -	\$ (189,318)	\$ 402,940	\$ 197,520
CIEDB loan payable	443,429	-	(43,346)	400,083	44,721
Net pension liability	2,525,039	249,696	-	2,774,735	-
Net OPEB liability	498,557	-	(116,059)	382,498	-
Compensated absences	<u>79,078</u>	<u>122,828</u>	<u>-</u>	<u>201,906</u>	<u>201,906</u>
Total long-term liabilities	<u>\$ 4,138,361</u>	<u>\$ 372,524</u>	<u>\$ (348,723)</u>	<u>\$ 4,162,162</u>	<u>\$ 444,147</u>

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:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 197,520	\$ 16,118	\$ 213,638
2022	<u>205,420</u>	<u>8,217</u>	<u>213,637</u>
Total	<u>\$ 402,940</u>	<u>\$ 24,335</u>	<u>\$ 427,275</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:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	50,667	5,934	56,601
2026-2028	<u>161,845</u>	<u>7,802</u>	<u>169,647</u>
Total	<u>\$ 400,083</u>	<u>\$ 52,806</u>	<u>\$ 452,889</u>

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 6 - LONG-TERM DEBT - CONT'D**

***C. Compensated Absences***

Included in accrued liabilities are accruals for accumulated sick leave and fully vested accumulated vacation pay. It is the 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.

**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, 2020, are summarized as follows:

Hire date	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
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.

VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020

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

***C. Contributions - cont'd***

The District's contributions to the Plan for the fiscal year ended was \$94,618.

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the net position liability of the Plan of \$2,774,735. 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, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

Proportion - June 30, 2019	0.06929 %
Proportion - June 30, 2018	0.06700 %
Change - Increase (Decrease)	0.00229 %

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, 2020
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019
Valuation Date	June 30, 2018

VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020

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

**D. Changes in the Net Pension Liability - Cont'd**

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

	Increase(Decrease)		Net Pension Liability/(Asset) (c) = (a) - (b)
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	
Balance at: 6/30/18 (VD)	\$ 8,843,363	\$ 6,318,324	\$ 2,525,039
Changes Recognized for the Measurement Period			
• Difference in proportion (TPL and FNP)	(692,069)	(778,387)	86,318
• Service Cost	290,391	-	290,391
• Interest on the Total Pension Liability	840,126	-	840,126
• Changes in benefit terms	889	-	889
• Change in assumptions	-	-	-
• Difference between Expected and Actual Experience	174,130	-	174,130
• Plan to Plan Resource Movement	-	19,571	(19,571)
• Contributions from the Employers	-	401,371	(401,371)
• Contributions from Employees	-	127,955	(127,955)
• Net Investment Income	-	599,791	(599,791)
• Benefit Payments, including Refunds of Employee Contributions	(548,172)	(548,172)	-
• Administrative Expenses	-	(6,551)	6,551
• Proportion Credit	-	-	-
• Other miscellaneous expense	-	21	(21)
Net Changes during 2018-19	<u>65,295</u>	<u>(184,401)</u>	<u>249,696</u>
Balance at: 6/30/18 (MD)	<u>\$ 8,908,658</u>	<u>\$ 6,133,923</u>	<u>\$ 2,774,735</u>

**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.

VALLEY OF THE MOON WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2020

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

***E. Discount Rate - cont'd***

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.

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)	\$ <u>4,450,820</u>	\$ <u>2,774,735</u>	\$ <u>1,391,245</u>



VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020

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

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

For the fiscal year ended June 30, 2020, the District recognized pension expense of \$542,176. As of June 30, 2020, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 94,618	\$ -
Changes in assumptions	132,312	46,904
Difference between expected and actual experience	192,717	14,932
Difference in actual contribution and proportionate share of contribution	38,568	167,016
Net differences between projected and actual earnings on pension plan investments	<u>54,493</u>	<u>48,509</u>
Total	<u>\$ 512,708</u>	<u>\$ 277,361</u>

\$94,618 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, 2020. 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:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2021	\$ 181,372
2022	(62,022)
2023	11,576
2024	<u>9,803</u>
Total	<u>\$ 140,729</u>

*Pension Plan Fiduciary Net Position*

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

**NOTE 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.

VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020

**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.

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.

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

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 June 30, 2019 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 is 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%
	<u>100%</u>	

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**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, 2019	\$ 1,681,673	\$ 1,183,116	\$ 498,557
Changes In the Fiscal Year			
Service Cost	39,656	-	39,656
Interest	105,203	-	105,203
Differences between actual and expected experience	(89,881)	-	(89,881)
Assumption changes	28,049	-	28,049
Contribution from the Employer	-	126,341	(126,341)
Net Investment Income	-	72,998	(72,998)
Benefit Payments	(126,341)	(126,341)	-
Administrative Expenses	-	(253)	253
Net Changes	<u>(43,314)</u>	<u>72,745</u>	<u>(116,059)</u>
Balance at June 30, 2020	<u>\$ 1,638,359</u>	<u>\$ 1,255,861</u>	<u>\$ 382,498</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 5.50%	Discount Rate 6.50%	Discount Rate 7.50%
Net OPEB Liability (Assets)	<u>\$ 581,580</u>	<u>\$ 382,498</u>	<u>\$ 219,217</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% 4.0%	Trend Rate 5.0%	Increase 1% 6.0%
Net OPEB liability (Assets)	<u>\$ 237,610</u>	<u>\$ 382,498</u>	<u>\$ 559,975</u>

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

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

At June 30, 2020, The District's deferred outflows of resources and deferred inflows of resources to OPEB from the following sources are:

	<u>Deferred Outflow Of Resources</u>	<u>Deferred Inflow Of Resources</u>
Differences between expected and actual experience	\$ -	\$ 83,123
Changes of assumptions	25,940	-
Net differences between projected and actual earnings on plan investments	<u>3,117</u>	<u>24,868</u>
Total	<u>\$ 29,057</u>	<u>\$ 107,991</u>

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

<u>Fiscal Year Ended June 30,</u>	<u>Deferred Outflow/(Inflows) of Resources</u>
2021	\$ (14,849)
2022	(14,847)
2023	(6,782)
2024	(3,869)
2025	(4,649)
Thereafter	<u>(33,938)</u>
Total	<u>\$ (78,934)</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.

**VALLEY OF THE MOON WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 11 - RESTATEMENTS**

The District did not have supporting documents for accounts payable balance of \$254,994 for the year ended June 30, 2020. As a result, a prior period adjustment was made to the net positions. The following table summarized the cumulative restatements to net position:

Beginning net position as previously reported at June 30, 2019	\$ 27,456,791
Prior period adjustment:	
Account payable	<u>254,994</u>
Total prior period adjustment	<u>254,994</u>
Net position as restated, July 1, 2019	<u>\$ 27,711,785</u>

**NOTE 12 - SUBSEQUENT EVENTS**

In February 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets.

The COVID-19 pandemic is complex and rapidly evolving. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, and financial position.

## REQUIRED SUPPLEMENTARY INFORMATION

**VALLEY OF THE MOON WATER DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED JUNE 30, 2020 (LAST 10 YEARS\*)**

Employer Fiscal Year End Measurement Date	June 30, 2020 <u>June 30, 2019</u>	June 30, 2019 <u>June 30, 2018</u>	June 30, 2018 <u>June 30, 2017</u>	June 30, 2017 <u>June 30, 2016</u>	June 30, 2016 <u>June 30, 2015</u>	June 30, 2015 <u>June 30, 2014</u>
Proportion of the Net Pension Liability	0.06929%	0.06700%	0.06490%	0.06430%	0.06540%	0.02119%
Proportion share of NPL	\$ 2,774,735	\$ 2,525,039	\$ 2,558,062	\$ 2,232,821	\$ 1,792,997	\$ 1,318,413
Covered Employee Payroll	\$ 1,054,044	\$ 1,385,647	\$ 872,211	\$ 748,727	\$ 709,417	\$ 665,327
Proportionate share of NPL as a % of Covered employee payroll	263.25 %	182.23 %	293.28 %	298.22 %	252.74 %	198.16 %
Plan fiduciary net position as a % of total pension liability	77.73 %	71.45 %	70.00 %	71.19 %	76.71 %	79.82 %

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



**VALLEY OF THE MOON WATER DISTRICT  
SCHEDULE OF PLAN CONTRIBUTION - PENSION  
FOR THE YEAR ENDED JUNE 30, 2020 (LAST 10 YEARS\*)**

Employer Fiscal Year End	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractual required contribution (actuarially Determined)	\$ 94,618	\$ 245,295	\$ 173,332	\$ 69,788	\$ 132,577	\$ 82,498
Contributions in relation to the actuarially Determined Contributions	<u>(94,618)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,054,044	\$ 1,385,647	\$ 872,211	\$ 748,727	\$ 709,417	\$ 665,327
Contributions as a Percentage of covered employee payroll	8.98 %	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 2019-20 were from the June 30, 2018 public agency valuation report.

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
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 six 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, 2020**

Reporting Date	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Total OPEB liability</b>			
Service cost	\$ 39,656	\$ 38,501	\$ 37,380
Interest on the total	105,203	105,008	103,787
Employer contributions	-	-	(90,109)
Net investment income	-	-	(104,895)
Benefit payments	(126,341)	(154,677)	-
Differences between actual and expected experience	(89,881)	-	-
Changes of assumptions	28,049	-	-
Administrative Expense	<u>-</u>	<u>-</u>	<u>532</u>
Net change in total OPEB liability	(43,314)	(11,168)	(53,305)
Total OPEB liability - beginning	<u>1,681,673</u>	<u>1,692,841</u>	<u>648,339</u>
Total OPEB liability - ending	<u>1,638,359</u>	<u>1,681,673</u>	<u>595,034</u>
<b>Plan's fiduciary net position</b>			
Contributions - employer	126,341	154,677	-
Net investment income	72,998	85,894	-
Benefit payments, including implicit subsidies net of retiree contributions	(126,341)	(154,677)	-
Administrative expense	<u>(253)</u>	<u>(585)</u>	<u>-</u>
Net change in plan's fiduciary net position	72,745	85,309	-
Plan's Fiduciary Net Position - beginning	<u>1,183,116</u>	<u>1,097,807</u>	<u>-</u>
Plan's Fiduciary Net Position - ending	<u>1,255,861</u>	<u>1,183,116</u>	<u>-</u>
Net OPEB Liability - ending	<u>\$ 382,498</u>	<u>\$ 498,557</u>	<u>\$ -</u>
Plan's fiduciary net position as a percentage of the Total OPEB Liability	76.65%	70.35%	64.85%
Covered employee payroll	\$ 1,037,810	\$ 951,934	949,129
Plan net OPEB liability as percentage of covered employee payroll	36.86%	52.37%	62.69%

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

**VALLEY OF THE MOON WATER DISTRICT  
SCHEDULE OF PLAN CONTRIBUTION - OPEB  
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Fiscal Year Ended</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Actuarially determined contribution (ADC)	\$ 126,341	\$ 154,677
Contributions in relation to the ADC	<u>126,341</u>	<u>154,677</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered - employee payroll	\$ 1,037,810	\$ 951,934
Contributions as a % of covered-employee payroll	12.17 %	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, California

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 (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 20, 2022.

***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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

### **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 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 it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Harshmal & Company LLP*

Oakland, California  
January 20, 2022

VALLEY OF THE MOON WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2020

**SECTION I - SUMMARY OF AUDITOR'S RESULT**

***Financial Statements***

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weakness?	None reported
• Noncompliance material to financial statements noted?	No

VALLEY OF THE MOON WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2020

**SECTION II - AUDIT FINDINGS IN RELATION TO FINANCIAL STATEMENT**

**2020-001 - Internal Control Over Financial Close and Reporting (Material Weakness)**

**Condition:**

The District lacks an effective internal control structure over financial close and reporting to allow accurate financial reporting. During our audit, the following issue was noted related to the District's financial close and reporting process:

- There were unsupported accounts receivable and accounts payable balances of the District at year end. The District lacks controls to ensure all accounts receivable and accounts payable are reconciled during the year or at year-end.

**Criteria:**

Concepts Statement of the Governmental Accounting Standards Board (GASBCS 1, paragraphs 62 and 64) state: "Financial reporting is the means of communicating financial information to users. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability ... Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive.

**Cause:**

Lack of established internal controls and processes over financial reporting to ensure accurate financial reporting and operation.

**Effect:**

The District's financial statements contained material misstatements, which required adjustments. Without established and effective internal controls and year-end reconciliation procedures, the District's balances lack certainty as to the accuracy of the balances.

**Recommendation:**

We recommend that management evaluate all aspects of the financial close and reporting processes, and establish effective internal controls and procedures to ensure accurate financial statements and supporting schedules.

**Management Response:**

The District will work diligently with the Management to correctly account for and report accounts receivable and accounts payable. The District will provide training to the Management on what is expected when reporting A/R and A/P.



**VALLEY OF THE MOON WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020**

<b>Prior Year Audit Recommendations</b>	<b>Status</b>
2019-001 Timely Filing with Proper documentation	Resolved