PINE COVE WATER DISTRICT

Financial Statements
and
Independent Auditor's Report

Year ended June 30, 2020

Pine Cove Water District
Financial Statements
Year ended June 30, 2020

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Independent Auditor's Report

Board of Directors
Pine Cove Water District
Idyllwild, California

Report on the Financial Statements

We have audited the accompanying financial statements of Pine Cove 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's *Minimum Audit Requirements for California Special Districts*, 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2020, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated August 21, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
August 21, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Pine Cove Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020. We encourage readers to consider the information contained within this overview and analysis in conjunction with the financial statements and the related notes.

The Water District

Pine Cove Water District (the District) was incorporated on August 2, 1956, and established under Division 12 of the Water Code of the State of California. The District has been engaged in financing, constructing, operating, maintaining and furnishing retail water service to its customers since inception. The District currently serves the Pine Cove area and has 1,103 connections. The District is governed by a five member Board of Directors that is elected at large, from the registered voters, living within the District's boundaries. The Board meets at 10:00 am on the 2nd Wednesday of each month at the District's office Board Room.

Water Supply

The District has 18 deep vertical wells located throughout our service area. We produce anywhere from 32 to 43 million gallons annually. We have no connection to State or imported water, and no surface water rights. All ground water is treated through one of our two treatment facilities. The District is known for having great tasting and an excellent quality of water, with plenty for our customers.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2020 by $3,333,575 (*net position).* Accordingly, some assets are not available to meet the near-term financial requirements of the District; $3,245,110 represents the net investment in capital assets. The remainder of the net position balance was a positive unrestricted amount of $88,465, which is primarily due to an increase in the District's operating revenues.
- Total operating revenues of the District increased by $152,643, primarily due to the water rate increase and the increase in water consumption by both residential and commercial customers.
- Total operating expenses of the District increased by $127,280, primarily due to the increase in expenses related to employees' retirement and benefits as well as increases in supervision and labor expenses for the transmission and distribution of water.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Pine Cove Water District's basic financial statements. The District's basic financial statements are comprised of three components.

The Statement of Net Position presents all information on the District's assets and deferred outflows of resources, and, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes or assessments and earned but unused vacation leave).

The Statement of Cash Flows presents the actual cash inflows and outflows during the most recent fiscal year. It also details how the District obtains cash through financing and investing activities and how cash is spent for those purposes.

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the District's financial statements. The notes can be found in this report as listed in the table of contents.

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the District's proportionate share of the CalPERS plan net pension liability. Also included within the Required Supplementary Information is a schedule of CalPERS pension plan contributions, a schedule of the net OPEB liability, and a schedule of OPEB plan contributions. Required Supplementary Information can be found in this report as listed in the table of contents.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Pine Cove Water District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $3,333,575 at the close of the most recent fiscal year.

By far the largest portion of the District's net position, $3,245,110, reflects its net investment in capital assets (e.g., land, buildings, vehicles, wells, reservoirs, transmission mains, machinery and equipment, accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net Position

	2020	2019	Change
Assets:			
Current and other assets	$ 814,237	$ 535,398	$ 278,839
Capital assets	3,525,241	3,502,574	22,667
Total Assets	4,339,478	4,037,972	301,506
Deferred Outflows of Resources	184,346	201,597	(17,251)
Liabilities:			
Current Liabilities	115,782	124,825	(9,043)
Non-Current Liabilities	991,721	971,047	20,674
Total Liabilities	1,107,503	1,095,872	11,631
Deferred Inflows of Resources	82,746	70,985	11,761
Net Position			
Net investment in capital assets	3,245,110	3,189,577	55,533
Unrestricted	88,465	(116,865)	205,330
Total Net Position	$ 3,333,575	$ 3,072,712	$ 260,863

At the end of the current fiscal year, the District reported a positive unrestricted net position, as noted above, due to the increase in water sales, thus increasing current assets and increasing the unrestricted net position available.

Condensed Statement of Revenues, Expenses and Changes in Net Position

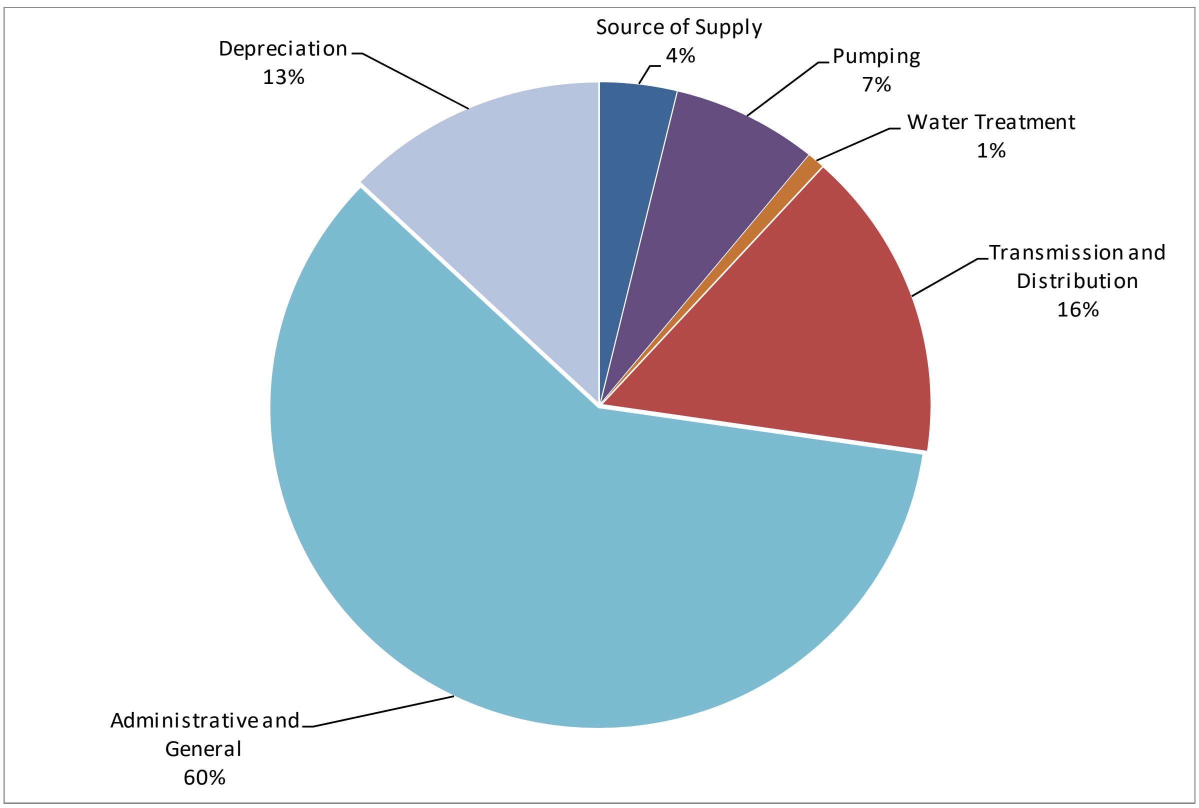
	2020	2019	Change
Operating Revenues	$ 753,720	$ 601,077	$ 152,643
Operating Expenses	957,525	830,245	127,280
Non-Operating Revenues (Expenses)	464,668	380,727	83,941
Change in Net Position	260,863	151,559	109,304
Net Position, Beginning of Year	3,072,712	2,921,153	151,559
Net Position, End of Year	$ 3,333,575	$ 3,072,712	$ 260,863

There was a significant change to operating revenue at the end of the current fiscal year. Operating revenues increased by $152,643 or 25.4 percent compared to the prior year. The District's operating revenues are from water sales and services to its residents.

Operating expenses increased by $127,280 or 15.0 percent compared to the prior year, primarily due to the increase in expenses related to employees' retirement and benefits and water transmission and distribution related expenses.

The majority of the non-operating revenue is derived from property tax assessments and revenue from leased cell towers.

As shown in the chart below, administrative and general, transmission and distribution, and depreciation represent the majority of the expenses at 60%, 16%, and 13%, respectively. The magnitude of these three expense categories demonstrates that the delivery of water to customers is a labor and capital intensive enterprise.



Capital Assets and Debt Administration

The District's investment in capital assets totals $3,525,241 (net of accumulated depreciation), as of June 30, 2020. This investment in capital assets includes land, other physical property, construction in progress, wells, pumping plants, water treatment plants, transmission and distribution plants and other plant-related items. The increase in the District's investment in capital assets for the current fiscal year was the result of additions to construction in progress related to the South Central Pipeline Replacement Project. Additional information on the District's capital assets can be found in Note 4 of this report.

At June 30, 2020 and 2019, the District had the following outstanding long-term liabilities:

	2020	2019	Change
Loans payable	$ 280,131	$ 312,997	$ (32,866)
Compensated absences	65,635	59,360	6,275
Net pension liability	669,971	631,555	38,416
Total long-term liabilities	$ 1,015,737	$ 1,003,912	$ 11,825

Water Rates for Pine Cove Water District

The water rate schedule for the District was changed on February 1, 2020. Effective February 2020, the monthly minimum charge for the District was increased by $1.50 per month bringing the monthly minimum charge to $35.50.

Capital Improvements

The District continues to improve its infrastructure by having an aggressive main line replacement program. During the past three years, we have replaced over 2 miles of main lines, utilizing District personnel only. Our total capital assets of $3,525,241 continue to rise. Construction projects not completed during the year totaled $420,240 and are included in construction in progress at year end.

Planned Improvements

The most important element of our improvement program is to continue doing all maintenance programs. By doing so, the District has no deferred maintenance at this time. During the summer of 2017 we began the South Central Pipeline Replacement Project using District personnel. Over the next three years, we plan to replace old lines on Nestwa Trail, Laurel Trail, Pine Ridge Road, Meadow and Oak Knoll for a total footage of over 8,000 feet.

Regulatory Agencies

The United States Environmental Protection Agency (USEPA) and the California Department of Health Services prescribe regulations that establish standards for the drinking water provided by the District to its customers. The District continually tests the water it delivers to its customers to ensure that the water meets all standards.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the General Manager, P.O. Box 2296, Idyllwild, CA 92549. We also encourage all to visit our website and blog at www.pcwd.org.

BASIC FINANCIAL STATEMENTS

Pine Cove Water District
Statement of Net Position
June 30, 2020

ASSETS	
Current Assets:	
Cash (Note 3)	$ 102,798
Imprest cash	300
Investments (Note 3)	356,930
Accounts receivable - water sales	23,852
Unbilled revenue	21,711
Due from other governmental agencies	5,805
Inventories of materials and supplies	262,732
Total Current Assets	774,128
Noncurrent Assets:	
Net OPEB asset	40,109
Capital assets not being depreciated:	
Land	357,178
Other physical property	271,312
Construction in progress	420,240
Capital assets, net of accumulated depreciation	2,476,511
Total Noncurrent Assets	3,565,350
TOTAL ASSETS	4,339,478
DEFERRED OUTFLOWS OF RESOURCES	
Pension related (Note 8)	182,520
OPEB related (Note 9)	1,826
	184,346

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

LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$	2,494
Unearned revenue		89,272
Loans payable - current portion		24,016
Total Current Liabilities		115,782
Noncurrent Liabilities:		
Loans payable - long-term portion		256,115
Compensated absences payable		65,635
Net pension liability		669,971
Total Noncurrent Liabilities		991,721
TOTAL LIABILITIES		1,107,503
DEFERRED INFLOWS OF RESOURCES		
Pension related (Note 8)		42,189
OPEB related (Note 9)		40,557
		82,746
NET POSITION		
Net investment in capital assets		3,245,110
Unrestricted		88,465
TOTAL NET POSITION	$	3,333,575

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

Pine Cove Water District
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2020

OPERATING REVENUES	
Water sales:	
Residential	$ 601,355
Business	90,871
Meters and connections	9,000
Water services:	
Other	52,494
Total Operating Revenues	753,720
OPERATING EXPENSES	
Source of supply:	
Supervision, labor and expenses	36,055
Pumping:	
Supervision, labor and expenses	36,163
Power purchased for pumping	32,163
Water treatment:	
Supervision, labor and expenses	8,049
Transmission and distribution:	
Supervision, labor and expenses	149,173
Administrative and general:	
Salaries	72,705
Office supplies and other expenses	34,400
Office utilities	6,174
Property insurance, injuries, and damages	34,555
Employees' retirement and benefits	226,860
Maintenance, general plant - auto	14,053
Maintenance, general plant - other	130,682
Professional services	52,918
Other operating:	
Depreciation	123,575
Total Operating Expenses	957,525
Operating Loss	(203,805)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	4,193
Taxes and assessments	185,964
Franchise and lease revenue	212,505
Grant revenue	71,745
Miscellaneous income	1,912
Interest on long-term debt	(9,419)
Miscellaneous expenses	(2,232)
Total Non-Operating Revenues (Expenses)	464,668
CHANGE IN NET POSITION	260,863
BEGINNING NET POSITION	3,072,712
ENDING NET POSITION	$ 3,333,575

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

Pine Cove Water District
Statement of Cash Flows
For the year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	701,419
Cash payments to suppliers for goods/services		(420,261)
Cash payments to employees for services		(481,706)
Other operating revenues		52,494
Net Cash Used for Operating Activities		(148,054)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes and assessments		185,034
Franchise and lease payments		215,906
Non-operating revenues		73,657
Non-operating expenses		(2,232)
Net Cash Provided by Noncapital Financing Activities		472,365
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(146,242)
Principal payments on debt		(32,866)
Interest paid		(9,419)
Net Cash Used for Capital and Related Financing Activities		(188,527)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		4,193
Net Cash Provided by Investing Activities		4,193
Net Increase in Cash and Cash Equivalents		139,977
Cash and Cash Equivalents - Beginning of Year		320,051
Cash and Cash Equivalents - End of Year	$	460,028
Cash and Cash Equivalents - End of Year Includes:		
Cash	$	102,798
Imprest cash		300
Temporary investments		356,930
Totals	$	460,028

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating Loss	$	(203,805)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation		123,575
Change in assets and liabilities:		
Decrease in accounts receivable - water sales		7,669
Increase in unbilled revenue		(7,476)
Increase in net OPEB asset		(26,404)
Increase in inventories of materials and supplies		(111,721)
Decrease in deferred outflows of resources		17,251
Decrease in accounts payable and accrued expenses		(3,595)
Increase in compensated absences payable		6,275
Increase in net pension liability		38,416
Increase in deferred inflows of resources		11,761
Net Cash Used for Operating Activities	$	(148,054)

Note 1 – Summary of Significant Accounting Policies

Description of the Reporting Entity

The Pine Cove Water District was formed on July 30, 1956 for the purpose of providing a domestic water supply under Section 30000 et. seq., of the Water Code. The District office and records are located at 24917 Marion Ridge, Idyllwild, California. Telephone number (951) 659-2675.

District officers are as follows:

Name	Title	Term Expires
Robert Hewitt	Board President	December 3, 2022
Diana Luther	Vice President	December 6, 2024
Vicki Jakubac	Director	December 6, 2024
Lou Padula	Director	December 3, 2022
Rose Venard	Director	December 6, 2022

The Board of Directors meets the second Wednesday of each month.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows.

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The District utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated by water sales and services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are generated by the District but are not directly associated with the normal business of supplying water and services.

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

Note 1 – Summary of Significant Accounting Policies, (continued)

Capital Assets

Capital Assets are defined by the District as assets with an initial, individual cost of more than $2,000, and an estimated useful life of more than one year. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	40 years
Improvements	12 – 50 years
Equipment	5 – 20 years

Purchased or constructed capital assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at acquisition value at the acquisition date.

Budgetary Accounting

The District's budgetary procedures are as follows:

Prior to the beginning of each fiscal year, the District adopts and files an itemized statement of estimated operating expenses, reserve requirements and anticipated revenues with the County Auditor-Controller. The sources of financing for these operating costs and reserve requirements are (1) available net position carried forward from the preceding year, (2) revenue other than property taxes, and (3) property taxes.

Deposits and Investments

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

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

Inventory

Inventories are priced using the first-in/first-out method and are valued at cost. Inventories consist of expendable supplies held for consumption and future additions to capital assets. The cost is recorded as an expense at the time individual inventory items are used.

Note 1 – Summary of Significant Accounting Policies, (continued)

Uncollectible Accounts

Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectability of existing specific accounts.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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

Other Post-Employment Benefits (OPEB)

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

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

Note 2 – Property Tax Calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1	
Levy Date	July 1	
Due Date	November 1	– 1st installment
	February 1	– 2nd installment
Delinquent Date	December 10	– 1st installment
	April 10	– 2nd installment

Under California law, property taxes are assessed and collected by the counties at up to 1% of the assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities and districts based on complex formulas prescribed by the state statutes.

Note 3 – Cash and Investments

Cash and Investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash in demand account	$ 102,798
Cash on hand	300
Temporary investments	356,930
Total Cash and Investments	$ 460,028

Cash and investments as of June 30, 2020 consist of the following:

Cash on hand	$ 103,098
Temporary investments	356,930
Total Cash and Investments	$ 460,028

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes investment in the local government investment pool administered by the State of California Local Agency Investment Fund (LAIF) and accounts insured by the Federal Deposit Insurance Corporation (FDIC). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Note 3 – Cash and Investments, (continued)

Interest Rate Risk

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

	Fair Value	Maturity Date
LAIF Investment Pool	$356,930	12 months or less

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitation 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 external investment pools).

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 standard insurance amount under the Federal Deposit Insurance Corporation (FDIC) is $250,000 per depositor, per insured bank, for each account ownership category, and are collateralized by the respective financial institution. 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 or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2020, none of the District's deposits with financial institutions were in excess of federal depository insurance limits.

Note 3 – Cash and Investments, (continued)

Custodial Credit Risk

Investment in State Investment Pool

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

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each district may invest up to $75,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling $1,675.408 million. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

Investments in the Local Agency Investment Fund are not subject to the fair value hierarchy.

Note 4 – Capital Assets

Activities relating to Capital Assets for the year ended June 30, 2020 are presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 357,178	$ -	$ -	$ 357,178
Other physical property	271,312	-	-	271,312
Construction in progress	351,724	146,242	(77,726)	420,240
Total capital assets, not being depreciated	980,214	146,242	(77,726)	1,048,730
Capital assets, being depreciated:				
Source of supply plant wells	576,439	-	-	576,439
Pumping plant	254,214	-	-	254,214
Water treatment plant	341,418	-	-	341,418
Transmission and distribution plant	2,593,119	-	-	2,593,119
General plant	1,328,183	77,726	-	1,405,909
Total capital assets, being depreciated	5,093,373	77,726	-	5,171,099
Less accumulated depreciation for:				
Source of supply plant wells	374,730	16,091	-	390,821
Pumping plant	204,638	9,755	-	214,393
Water treatment plant	137,407	13,601	-	151,008
Transmission and distribution plant	1,299,467	55,061	-	1,354,528
General plant	554,771	29,067	-	583,838
Total accumulated depreciation	2,571,013	123,575	-	2,694,588
Total capital assets, being depreciated, net	2,522,360	(45,849)	-	2,476,511
Capital assets, net of depreciation	$ 3,502,574	$ 100,393	$ (77,726)	$ 3,525,241

Depreciation expense for the year ended June 30, 2020 was $123,575.

Note 5 – Compensated Absences Payable

Pursuant to Generally Accepted Accounting Principles, the accompanying financial statements present accrued vacation benefits due to employees at June 30, 2020. The change in compensated absences payable for the year ended June 30, 2020, was as follows.

Description	Outstanding Beginning of Year	Additions	Deletions	Outstanding End of Year
Compensated Absences Payable	$ 59,360	$ 28,660	$ (22,385)	$ 65,635

Note 6 – Long-Term Debt

Activities relating to Long-Term Debt for the year ended June 30, 2020 are presented as follows:

Description	Outstanding Beginning of Year	Additions	Deletions	Outstanding End of Year	Due Within One Year
Loan Payable - USDA Loan	$ 266,217	$ -	$ 4,982	$ 261,235	$ 5,120
Loan Payable - CNH Capital	46,780	-	27,884	18,896	18,896
Total	$ 312,997	$ -	$ 32,866	$ 280,131	$ 24,016

United States Department of Agriculture (USDA) Loan Agreement – Direct borrowing

On October 5, 2012, the District entered into a loan agreement with the United States Department of Agriculture in the amount of $292,000 with a fixed interest rate of 2.75%, monthly payments of principal and interest of $1,020 beginning November 19, 2013. The purpose of this loan was to provide for the purchase of vehicle and pipeline materials. In the event of default, all principal balances may be due and payable. Future payment requirements are as follows:

	Loan Payable - USDA Loan		
June 30,	Principal	Interest	Total
2021	$ 5,120	$ 7,120	$ 12,240
2022	5,263	6,977	12,240
2023	5,409	6,831	12,240
2024	5,560	6,680	12,240
2025	5,715	6,525	12,240
2026 - 2030	31,053	30,147	61,200
2031 - 2035	35,624	25,576	61,200
2036 - 2040	40,869	20,331	61,200
2041 - 2045	46,885	14,315	61,200
2046 - 2050	53,788	7,412	61,200
2051 - 2055	25,949	816	26,765
Total	$ 261,235	$ 132,730	$ 393,965

Note 6 – Long-Term Liabilities, (continued)

CNH Capital Loan Agreement – Direct borrowing

On April 4, 2018, the District entered into a 1.9% interest loan agreement with CNH Capital in the amount of $91,337 with monthly payments of $2,504 beginning May 4, 2018. The purpose of this loan was to provide for the purchase of a New Holland tractor. In the event of default, all obligations may become due and payable or CNH Capital may take possession of the asset or render it unusable. Future payment requirements are as follows:

Loan Payable - CNH Capital			
June 30,	Principal	Interest	Total
2021	$ 18,896	$ 1,441	$ 20,337
Total	$ 18,896	$ 1,441	$ 20,337

Note 7 – Operating Leases

The District is the lessor of real property under operating leases expiring in various years. The cost and carrying amount of the land being leased has not been segregated from the other land the District holds.

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan)

General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. 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 plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

General Information about the Pension Plan, (continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or 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 operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

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

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7 % @ 55	2% @ 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	2.0% to 2.7%	1.0% to 2.5%
Required employer contribution rates	13.182%	6.985%

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

General Information about the Pension Plan, (continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2020 were $89,950. The actual employer payments of $78,383 made to CalPERS by the District during the measurement period ended June 30, 2019 differed from the District's proportionate share of the employer's contributions of $69,338, by $9,045, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows:

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

Net Pension Liability, (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal in accordance with requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Long-term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent 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 adjusted to account for assumed administrative expenses.

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

Net Pension Liability, (continued)

Long-term Expected Rate of Return, (continued)

The expected real rates of return by asset class are as follows:

Asset Class[1]	Current Target Allocation	Real Return Years 1 - 10[2]	Real Return Years 11+[3]
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	-	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	(0.92%)
Total	100%		

[1] In the System's CAFR, fixed income is included in global debt securities; liquidity is included in short-term investments; inflation assets are included in both global equity securities and global debt securities.

[2] An expected inflation of 2.0% used for this period

[3] An expected inflation of 2.92% used for this period

Changes of Assumptions

There were no changes in assumptions.

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

Net Pension Liability, (continued)

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

Proportionate Share of Net Pension Liability

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2018 (VD)	$ 2,271,860	$ 1,640,305	$ 631,555
Balance at: 6/30/2019 (MD)	$ 2,343,340	$ 1,673,369	$ 669,971
Net Changes during 2018-2019	$ 71,480	$ 33,064	$ 38,416

Valuation Date (VD), Measurement Date (MD)

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

Proportionate Share of Net Pension Liability, (continued)

The District's net pension liability for each 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 determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website at www.calpers.ca.gov. The District's proportionate share of the net pension liability for the Miscellaneous Plan as of the June 30, 2018 and 2019 measurement dates was as follows:

	Miscellaneous
Proportionate Share - June 30, 2018	0.01676%
Proportionate Share - June 30, 2019	0.01673%
Change - Increase (Decrease)	-0.00003%

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

The following presents the District's proportionate share of the net pension liability 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 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	$ 985,158	$ 669,971	$ 409,807

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Under GASB 68, 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.

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

Proportionate Share of Net Pension Liability, (continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources

The amortization period differs depending on the source of the gain or loss:

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

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the PERF C for the measurement period ending June 30, 2019 is 3.8 years, which was obtained by dividing the total service years of 530,470 (the sum of remaining service lifetimes of the active employees) by 140,593 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

As of the start of the measurement period (July 1, 2018), the District's net pension liability was $631,555. For the measurement period ending June 30, 2019 (the measurement date), the District incurred pension expense of $131,702.

Note 8 – District Employees' Retirement Plan (Defined Benefit Pension Plan), (continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions, (continued)

As of June 30, 2020, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 46,531	$ (3,606)
Changes of assumptions	31,947	(11,325)
Differences between projected and actual investment earnings	-	(11,713)
Change in employer's proportion	3,352	(15,545)
Differences between employer's contributions and proportionate share of contributions	10,740	-
Pension contributions made subsequent to measurement date	89,950	-
Total	$ 182,520	$ (42,189)

These amounts above are net of outflows and inflows recognized in the 2018-2019 measurement period income/expense. Contributions subsequent to the measurement date of $89,950 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2021	$ 49,309
2022	(8,477)
2023	7,183
2024	2,366
2025	-
Remaining	-

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of $-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

Note 9 – Other Postemployment Benefits (OPEB)

Plan Description

The District administers a single-employer defined benefit plan which provides medical insurance benefits to eligible retirees and their spouses. The Minimum Employer Contribution amount is prescribed by Government Code section 22892 of the Public Employees' Medical and Hospital Care Act (PEMHCA). California Government Code 22892 of the PEMHCA establishes the contracting agencies' minimum health premium contribution for their participating active membership. In addition, this section provides that "commencing January 1, 2009, the employer contribution shall be adjusted annually by the board to reflect any changes in the medical care component of the CPI-U and shall be rounded to the nearest dollar."

Employees Covered

As of the June 30, 2019 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	4
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to, but not yet receiving benefits	-
Total	4

Contributions

The District's contribution requirements to cover the costs of its postemployment benefits plan are established and may be amended by the District's Governing Board. The District voluntarily prefunds its annual contribution requirement (i.e. to set aside funds in advance of when medical premiums become due). Amounts that are prefunded are deposited into a prefunding account with CalPERS' California Employer's Retiree Benefit Trust Program ("CERBT"), the prefunding plan under Government Code Section 22940 for prefunding health care coverage for annuitants). CERBT is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 74, consisting of an aggregation of single-employer plans with pooled administrative and investment functions. Assets held in this trust are considered to be assets held in a fiduciary capacity on behalf of District employees and these assets accordingly have been excluded from the District's reported assets.

The CalPERS CERBT publishes GASB 74 compliant Financial Statements, Notes, and Required Supplementary Information which may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

Note 9 – Other Postemployment Benefits (OPEB), (continued)

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation using the Alternative Measurement Method dated June 30, 2019, based on the following actuarial methods and assumptions:

Actuarial Assumptions	June 30, 2019 Measurement Date
Actuarial Valuation Date	June 30, 2019
Contribution Policy	District contributes full ADC
Discount Rate	6.25%
General Inflation	2.50%
Mortality, Retirement, Disability, Termination	Based on CalPERS 2017 Experience Study. Mortality assumptions based on MacLeod Watts Scale 2018 applied generationally.
Salary increases	3.00%
Medical Trend	6.50% for 2021, fluctuates until ultimate rate of 4.0% in 2076 and later years
Healthcare Participation	90% of eligible active employees are assumed to elect medical coverage at retirement.

Discount Rate

A discount rate of 6.25% was used in the valuation. This discount rate assumes the District continues to fully fund for its retiree health benefits through the CERBT under its investment allocation strategy.

Change in assumptions

Mortality rates were updated to the 2008 rates (midpoint year) of CalPERS' 2017 experience study, then projected on a generational basis by MacLeod Watts Scale 2018.

General inflation rate decreased from 2.75% to 2.5%. Salary rate decreased from 3.25% to 3.0% per year. Medical trend was updated to use the Getzen model. The Public Employees' Medical and Hospital Care Act Minimum Employer Contribution (PEMHCA MEC) decreased from 4.5% to 4% per year.

The excise tax for high cost retiree coverage was excluded from the valuation results due to its December 2019 repeal.

Note 9 – Other Postemployment Benefits (OPEB), (continued)

Changes in the OPEB Liability (Asset)

The changes in the net OPEB liability (asset) for the Plan are as follows:

	(a) Total OPEB Liability	(b) Plan Fiduciary Net Position	(a) - (b) = (c) Net OPEB Liability (Asset)
Balance at June 30, 2019 (6/30/18 measurement date)	$ 104,651	$ 118,356	$ (13,705)
Changes recognized for the measurement period:			
Service cost	6,784	-	6,784
Interest	6,965	-	6,965
Expected investment income	-	7,575	(7,575)
Employer contributions	-	5,699	(5,699)
Changes of benefit terms	-	-	-
Administrative expense	-	(25)	25
Other expenses	-	-	-
Benefit payments	-	-	-
Assumption changes	(7,065)	-	(7,065)
Plan experience	(20,064)	-	(20,064)
Investment experience	-	(225)	225
Recognized deferred resources	-	-	-
Employer contributions in fiscal year	-	-	-
Net changes	(13,380)	13,024	(26,404)
Balance at June 30, 2020 (6/30/19 measurement date)	$ 91,271	$ 131,380	$ (40,109)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net OPEB Liability (Asset)	$ (25,058)	$ (40,109)	$ (52,400)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability (asset) of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability (Asset)	$ (54,721)	$ (40,109)	$ (21,612)

Note 9 – Other Postemployment Benefits (OPEB), (continued)

OPEB Plan Fiduciary Net Position

CalPERS issues a publicly available CERBT financial report that may be obtained from the CalPERS' website at www.calpers.ca.gov.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The net difference between projected and actual earnings on OPEB plan investments is amortized using the straight-line method over 5 years, while all other amounts are amortized over the expected average remaining service lifetime (EARSL) of plan participants.

Liability changes due to plan experience which differs from what was assumed in the prior year and/or from assumption changes during the year are recognized over the plan's Expected Average Remaining Service Life ("EARSL"). The EARSL period is 8.13 years for deferred resources arising in the current measurement period.

Changes in the Fiduciary Net Position due to investment performance different from the assumed earnings rate are always recognized over 5 years.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2020, the District recognized OPEB income of $729. As of fiscal year ended June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 1,826	$ 6,196
Net difference between expected and actual experience	-	32,289
Net difference between projected and actual earnings on OPEB plan investments	-	2,072
Contributions to OPEB plan subsequent to the measurement date	-	-
Total	$ 1,826	$ 40,557

Note 9 – Other Postemployment Benefits (OPEB), (continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB, (continued)

Amounts reported as deferred outflows or inflows of resources related to OPEB will be recognized as expense as follows.

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2021	$ (6,928)
2022	(6,927)
2023	(6,235)
2024	(5,946)
2025	(5,588)
Thereafter	(7,107)
	$ (38,731)

Note 10 – District Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District. For the fiscal year ended June 30, 2020, the District paid $2,150 in premiums.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2020, there were no such liabilities to be reported.

Note 11 – COVID-19 Considerations

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty in the financial markets. Although the District's services are considered essential, the District’s office was closed to the public, certain other services transitioned to online-only and because the District's major revenue sources are directly impacted by these events, it is probable that this matter will negatively impact the District. However, the ultimate financial impact and duration cannot be estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Pine Cove Water District
Required Supplementary Information
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date
Last 10 Years*

Measurement Date	Employer's Proportion of the Collective Net Pension Liability[1]	Employer's Proportionate Share of the Collective Net Pension Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	Pension's Plans Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2014	0.00667%	$ 415,223	$ 238,383	174%	78%
6/30/2015	0.00716%	491,160	206,680	238%	75%
6/30/2016	0.00669%	579,154	217,508	266%	70%
6/30/2017	0.00660%	654,374	237,267	276%	70%
6/30/2018	0.00655%	631,555	250,695	252%	72%
6/30/2019	0.00654%	669,971	261,688	256%	71%

[1] Proportion of the collective net pension liability represents the Plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

* Measurement date 6/30/2014 (fiscal year 2015) was the first year of implementation. Additional years will be presented as information becomes available.

Schedule of Plan Contributions
Last 10 Years*

Fiscal Year	Contractually Determined Contributions	Contributions in Relation to the Contractually Determined Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014-15	$ 53,988	$ (53,988)	$ -	$ 206,680	26.12%
2015-16	57,273	(57,273)	-	217,508	26.33%
2016-17	63,180	(63,180)	-	237,267	26.63%
2017-18	68,871	(68,871)	-	250,695	27.47%
2018-19	78,383	(78,383)	-	261,688	29.95%
2019-20	89,950	(89,950)	-	285,981	31.45%

* Measurement date 6/30/2014 (fiscal year 2015) was the first year of implementation. Additional years will be presented as information becomes available.

Notes to Schedule:

Change in Benefit Terms: None

Changes in Assumptions: There were no changes in assumptions in 2019. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate in 2019. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes in discount rate. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Pine Cove Water District
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios
Last 10 Years*

Fiscal Year	2019-20	2018-19	2017-18
Measurement Period	2018-19	2017-18	2016-17
Total OPEB Liability			
Service cost	$ 6,784	$ 6,570	$ 6,431
Interest	6,965	6,156	6,633
Differences between expected and actual experience	(20,064)	-	(23,783)
Changes of assumptions	(7,065)	-	2,954
Benefit payments	-	-	-
Net change in total OPEB liability	(13,380)	12,726	(7,765)
Total OPEB liability - beginning	104,651	91,925	99,690
Total OPEB liability - ending (a)	91,271	104,651	91,925
Plan Fiduciary Net Position			
Contributions – employer	5,699	7,450	7,656
Net investment income	7,350	8,116	9,085
Benefit payments			-
Administrative expense	(25)	(55)	(47)
Other expenses	-	(136)	-
Net change in plan fiduciary net position	13,024	15,375	16,694
Plan fiduciary net position - beginning	118,356	102,981	86,287
Plan fiduciary net position - ending (b)	131,380	118,356	102,981
Net OPEB liability (asset) - ending (a) - (b)	$ (40,109)	$ (13,705)	$ (11,056)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	143.9%	113.1%	112.0%
Covered-employee payroll	$ 286,365	$ 278,024	$ 269,273
Net OPEB liability (asset) as a percentage of covered-employee payroll	-14.0%	-4.9%	-4.1%

Notes to Schedule:

Changes in assumptions:

Mortality Improvement	Mortality rates were updated to the 2008 rates (midpoint year) of CalPERS' 2017 experience study, then projected on a generational basis by MacLeod Watts Scale 2018.
General Inflation Rate	Decreased from 2.75% to 2.5%
Salary Increase	Decrease from 3.25% to 3.0% per year
Medical Trend	Updated to use the Getzen model
PEMHCA MEC increases	Decreased from 4.5% to 4.0% per year
Excise Tax repeal	The excise tax for high cost retiree coverage was excluded from the valuation results due to its December 2019 repeal.

The District does not have assets accumulated in a trust that meet the criteria of GASB 75 to pay related benefits.

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Pine Cove Water District
Required Supplementary Information
Schedule of OPEB Contributions
Last 10 Years*

Fiscal Year	2020	2019	2018
Actuarially Determined Contribution (ADC)	$ -	$ 5,699	$ 7,450
Contributions in relation to the ADC	-	5,699	7,450
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 286,365	$ 278,024	$ 269,273
Contributions as a percentage of covered-employee payroll	0.0%	2.0%	2.8%

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

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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*

Independent Auditor's Report

Board of Directors
Pine Cove Water District
Idyllwild, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pine Cove 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 August 21, 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 opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
August 21, 2020