RIO ALTO WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT THEREON

JUNE 30, 2020

RIO ALTO WATER DISTRICT

Financial Statements
For the Year Ended June 30, 2020

Table of Contents

FECHTER & COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST

Independent Auditor's Report

Board of Directors
Rio Alto Water District
Cottonwood, California

Report on the Financial Statements

We have audited the accompanying financial statements of Rio Alto 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 basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Board of Directors
Rio Alto Water District
Cottonwood, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Alto Water District as of June 30, 2020, and the changes in financial position and, where applicable, cash flows thereof for the 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 information presented in the required supplementary information section, referred to 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 (GASB) 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 may have 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion is not modified as a result of this omission.

Board of Directors
Rio Alto Water District
Cottonwood, California

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplemental Information described in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fechter & Company
Certified Public Accountants

Fechter & Company, CPAs

Sacramento, California
March 9, 2021

BASIC FINANCIAL STATEMENTS

RIO ALTO WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020

Assets	
Current Assets:	
Cash and cash equivalents	$ 1,080,957
Accounts receivable less allowance for doubtful accounts	212,206
Less allowance for doubtful accounts	(2,432)
Interest receivable	12,468
Prepaid expenses	6,928
Inventory	14,203
Total current assets	1,324,330
Noncurrent Assets:	
Investments designated for capital assets and retirement of OPEB liability	784,696
Restricted cash	1,564,771
Delinquent accounts receivable	89,053
Delinquent taxes receivable	89,365
Capital assets, net accumulated depreciation	9,877,539
Total noncurrent assets	12,405,424
Total Assets	13,729,754
Deferred Outflows of Resources	
Deferred outflows related to OPEB	29,913
Deferred outflows related to pensions	179,986
Liabilities	
Current Liabilities:	
Accounts payable	8,114
Accrued interest payable	78,692
Long-term debt, due within one year	148,141
Total current liabilities	234,947
Long-Term Liabilities:	
Net pension liablity	952,597
Long-term liabilities due beyond one year	7,917,772
Total long term liabilities	8,870,369
Total liabilities	9,105,316
Deferred Inflows of Resources	
Deferred inflows related to pension	83,140
Deferred inflows related to OPEB	410,099
Net Position	
Net investment in capital assets, net of related debt	2,609,767
Restricted for:	
Debt service and debt reserve	1,346,545
Capacity expansion	116,714
Unrestricted	268,072
Total Net Position	$ 4,341,098

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

RIO ALTO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED
JUNE 30, 2020

Operating Revenues	
Utility services	$ 1,105,971
Hydrant charges	31,553
Other charges	35,375
Total operating revenues	1,172,899
Operating Expenses	
Payroll	498,944
Payroll benefits	419,231
Utilities	92,205
Tools and supplies	68,061
Contracted services	15,351
Maintenance	47,587
Insurance	22,100
Directors' fees	7,080
Office expenses	16,060
Legal and audit	17,077
Regulatory fees	35,778
Wastewater permit testing	12,314
Other expenses	25,672
Depreciation	351,244
Total operating expenses	1,628,704
Operating Loss	(455,805)
Non-Operating Revenues (Expenses)	
Special Community Facilities District Tax	341,040
Property taxes	191,313
Connection and capacity expansion fees	194,174
Penalties from Tehama County	997
Lease income	28,900
Interest income	68,862
Interest expense	(157,310)
Consultants for non-operating activities	(12,824)
Total non-operating revenues (expenses)	655,152
Increase in Net Position	199,347
Net Position - beginning of the year	4,141,751
Net Position - end of the year	$ 4,341,098

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

RIO ALTO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2020

Cash flows from operating activities:	
Cash received from customers and users	$ 1,115,590
Cash received from others	35,375
Cash paid to suppliers	(381,315)
Cash paid to employees and related benefits	(819,313)
Net cash used by operating activities	(49,663)
Cash flows from capital financing activities:	
Cash received from connection charges	194,174
Cash received from special taxes for sewer project	341,040
Cash paid for suppliers for non-operating activities	(12,824)
Purchases and transfers of capital assets	(1,561,152)
Proceeds from capital debt	1,590,800
Interest paid on capital debt	(149,347)
Payments on long-term debt	(133,552)
Net cash used by capital financing activities	269,139
Cash flows from non-capital financing activities:	
Cash received from ad valorem property taxes	179,252
Cash received from property tax penalties	997
Net cash provided by non-capital financing activities	180,249
Cash flows from investing activities:	
Lease payments received for use of property	28,900
Interest on investments	73,945
Net cash provided by investing activities	102,845
Increase in cash and cash equivalents	502,570
Cash and cash equivalents, beginning of the year	2,927,854
Cash and cash equivalents, end of the year	$ 3,430,424
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	$ 1,080,957
Restricted cash with fiscal agent	2,349,467
Total cash and cash equivalents at fiscal year-end	$ 3,430,424

(Continued)

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

RIO ALTO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2020

(Continued)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating loss	$	(455,805)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		351,244
Changes in assets and liabilities		
(Increase) in accounts receivable		(21,934)
(Increase) in inventory		(595)
(Increase) in prepaid expenses		(2,173)
(Decrease) in accounts payable		(19,262)
(Decrease) in accrued compensated absences		(2,572)
(Decrease) in net other post-employment benefits		(33,497)
Increase in net pension		134,931
Net cash used by operating activities	$	(49,663)

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Rio Alto Water District (the District), a special district of the State of California, was organized to provide water to the residents of the Lake California area in Cottonwood, California. Rio Alto Water District was created under the State of California Water Code on December 30, 1968. Shortly after its formation, the voters of the District approved a measure allowing the district to also engage in the collection, transmission, treatment, and disposal of wastewater generated within the District boundaries. The financial statements of the District include the financial activities of the Rio Alto Water District and Community Facilities District No. 2011-1.

On January 11, 2012, the Board of Directors adopted Resolution 02-12, forming Community Facilities District No. 2011-1 for the purpose of funding necessary improvements to the wastewater treatment plant and to create a wetland in order to comply with the terms of the National Pollutant Discharge Elimination System (NPDES) permit from the Regional Water Quality Control Board Central Valley Region. On April 17, 2012, the voters within the boundaries of the Community Services District No. 2011-1 approved Measure A levying a special tax on landowners within the District.

The District's primary source of revenues are from charges to residential customers for sewer and water services primarily in the District's boundaries which encompass approximately 6,000 acres located in Northern Tehama County, California. The District shares in the Tehama County ad valorem tax for special districts, which is determined by the Tehama County Auditor based on State law. As well, the District receives interest income from investments.

The governing body of the District is a Board of Directors (the Board) consisting of five members elected for four-year terms. Management of the District is the responsibility of the General Manager as appointed by the Board. No legally separate entities meet the criteria specified in GASB 61 for treatment as component units of the District. Community Facilities District 2011-1 is not considered a separate legal entity as it does not have its own governing board. All decisions are made by the Board of Directors of Rio Alto Water District and all property is owned by Rio Alto Water District. Its financial results are reported as part of the District. However, the USDA Bond obligation and State Water Resources Control Board (SWRCB) installment sale agreement are payable solely from the Community Facilities District special taxes and the assets pledged, and are not general obligations of the District. More information on the District's debt can be found in Note 4. No separate financial statements are issued for Community Facilities District No. 2011-1.

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

B. Basis of Presentation

The accounts of the District are organized and operated on a fund basis. Each fund contains a separate, self-balancing set of accounts to account for its operations.

All activities of the District are accounted for within proprietary (enterprise) funds. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus, which requires use of the accrual basis of accounting. On this basis, all assets and liabilities associated with operations are included on the statement of net position, revenues are recognized when earned, and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's principal ongoing operations provide water and sewer services to residential customers. Accordingly, the principal operating revenues of the District are charges to residential customers for water and sewer and closely related services. Operating expenses include the costs of sales and services, transmission and distribution, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition of *operating* revenues or expenses above are reported as *non-operating* revenues and expenses. Revenues from property taxes, connection fees, penalties from Tehama County, capacity expansion fees, and interest income are considered non-operating revenues.

The proprietary funds are presented in accordance with the hierarchy of generally accepted accounting principles for state and local governments, as described in GASB Statement 76.

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

C. Basis of Accounting – continued

For purposes of the Statements of Cash Flows, the District defines cash and cash equivalents as bank account balances available on demand, cash on hand, and investment account balances that can be easily converted to cash within seven calendar days (such as the Local Agency Investment Fund). Cash flows from operating activities are presented using the direct method. All investments are reported at fair value, which is either the market price or amortized cost.

Statement of Net Position **–** The statement of net position is designed to report the financial position of the District at the balance sheet date. The District's fund equity (net position) shown on this statement is separated into three categories defined as follows:

- ***Net Investment in Capital Assets*** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. This category of net position is considered non-expendable.

- ***Restricted*** – This component of net position consists of net position that is subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It includes net position constrained by law, constitutional provisions, or enabling legislation.

- ***Unrestricted*** – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." The District's Board of Directors may designate portions of unrestricted net position for particular purposes.

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position presents the results of operations of the proprietary funds for the current period. Revenues are reported by major source. Operating revenues and expenses are presented separately from non-operating items and an operating income subtotal is presented prior to adjustment for non-operating items.

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Revenue Policies – Utility Fees

The District's principal sources of revenue are from water sales, water connection fees, sewer charges for collection, transmission, treatment and disposal of wastewater, and charges for the availability of utility services that are paid by owners of undeveloped lots. Water rates are established by the Board, but may only be increased in accordance with California's Proposition 218, which requires that notices of any proposed fee increases be mailed to all property owners, that a public hearing be held, and that the fee increase may not be implemented if written objections are received from a majority of property owners. However, the District's authority to set water rates is not subject to the oversight or approval of the California Public Utilities Commission or another regulatory agency. The District recognizes revenue for these charges when they are earned through the provision of services or the passage of time. In compliance with Prop 218, the District held a public hearing on May 19, 2016 and in the absence of a majority written protest, approved an increase to water rates, staged in over the subsequent five fiscal years, in response to rate study prepared by Bartle Wells Associates.

E. Revenue Policies – Connection and Capacity Expansion Fees

The District charges a connection fee, and, for customers located in certain areas, a capacity expansion fee, for connecting to the District for the first time. The fee varies depending on the location of the new connection and whether the customer is connecting to both the water and sewer systems or the water system only. As these fees are intended primarily to finance capital costs, they are classified as non-operating revenue. The District recognizes revenue at the time the application is tendered for the new connection.

F. Delinquent Accounts and Taxes Receivable

The District transfers delinquent accounts to the Tehama County Tax Collector once per year, and a majority of these accounts are eventually collected. The allowance for uncollectible accounts is increased annually to reflect 100% of the amounts due on water and sewer charges over 90 days delinquent, less the portion of this amount that has been transferred to the Tehama County Tax Collector for collection. The portion of accounts receivable transferred to Tehama County for collection, reduced by significant Tehama County collections to be received in January following the fiscal year end, and delinquent special taxes receivable outstanding at year end are reflected as a noncurrent asset because the majority of these amounts will not be collected within twelve months of the end of the fiscal year.

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

G. Property Tax Revenue

In accordance with Article XIII-A of the State Constitution, California property taxes are collected by the County Tax Collector, pooled, and then allocated to the local governments within the County. Property tax revenue is recognized when taxes are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 10
	Second installment – February 10
Delinquent date:	First installment – December 11
	Second installment – April 11

Under California law, property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. Property taxes collected are allocated to the District three times a year. The final distribution is made close to June 30 each year and reflects the property taxes collected from April 10 to approximately May 30.

The Board of Directors, acting as the Board of Community Facilities District 2011-1, levies a special tax each year up to $289 per equivalent dwelling unit to provide for the debt service on the debt incurred in connection with the sewer treatment plant improvement project. While still authorized to levy the maximum tax of $289, starting in fiscal year 2015-2016, the Board of Directors reduced the levy to $240 per equivalent dwelling unit. The taxes are collected by the Tehama County Tax Collector at the same time as the ad valorem taxes.

H. Designation of Investments for Capital Asset Acquisition and OPEB Liability Retirement

Through the budgeting process, the District's Board of Directors has designated portions of its investment account balances for use in acquiring capital assets and retiring the District's OPEB liability. In accordance with GASB Statement 62, paragraph 31, the District considers these investment balances to be noncurrent assets, because their intended use is to acquire other noncurrent assets or to retire liabilities that are not due within one year.

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

I. Inventories

The District's inventories are valued at historical cost on a first-in, first-out basis. Expenses are recorded when inventory items are used. The inventory consists of water meters and materials and supplies for maintenance of the District's water and sewer systems.

J. Prepaid Expense

The District's prepaid expense consists primarily of prepaid insurance.

K. Capital Assets

The District's capital assets include plant and equipment, which are recorded at historical cost. The original plant and improvements completed by the original developer of Lake California and three low pressure systems located outside the sewer district were contributed to the District and were recorded at their fair market value.

New developments of residential lots are accepted only when the construction of the utilities meet the standards set by the District and are capitalized at a cost approved by the district's engineers.

The District's policy is to capitalize all assets with a useful life of more than a year which cost in excess of $1,000. The District uses the straight-line method of computing depreciation. Estimated useful lives of the District's assets are determined based on the length of time the asset class is expected to provide service to the District and are as follows:

Water Plant	60 years
Sewer Treatment Plant, including the low pressure sewer systems	50 years
Buildings	35 years
Equipment	5 to 10 years

Maintenance and repairs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. Costs incurred prior to completion for major improvements or construction of capital assets are accumulated in construction in progress. Once they are ready for use, assets previously recorded in construction in progress are transferred to the appropriate capital asset category.

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

L. Loans Payable

The District records outstanding obligations for loans payable at the time funds are disbursed by the lender to the District or for its benefit. In accordance with GASB 62, the District classifies the portion of loans payable due within one year from the balance sheet date as a current liability.

M. Compensated Absences

The District's employees earn vacation in varying amounts depending on length of service. Employees also earn sick leave at the rate of one day to 1 - 5/12 days per month depending on job category. There is no maximum accrual of sick leave except that the General Manager cannot accrue sick leave in excess of 90 days. Vacation can be accumulated to a total of between 20 to 50 days depending upon length of service and job category. Employees and the General Manager are allowed to take payment in lieu of vacation up to one-half of an employee's yearly accrual each fiscal year. Upon separation from the District, employees are entitled to full payment for accrued vacation but not for sick leave. The District records its obligations for vacation when earned by the employees based on current rates of pay at the time. The division of the compensated absences liability to current and long-term portions is based on experience.

N. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, and then unrestricted resources as needed.

O. Net Pension Liability and Deferred Outflows and Inflows Related to Pensions

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

P. 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: July 1, 2019
Measurement Date: June 30, 2020
Measurement Period: July 1, 2019 to June 30, 2020

Q. Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2020 are reported in the accompanying financial statements in the classifications set forth below.

	Unrestricted	Designated	Restricted	Total
Cash:				
Cash on hand and in checking accounts	$ 140,022	$ -	$ 288,248	$ 428,270
Investments:				
Cash in interest-bearing LAIF account	940,935	784,696	1,276,523	3,002,154
Total	$ 1,080,957	$ 784,696	$ 1,564,771	$ 3,430,424

The balance of investment in LAIF listed under Designated represents the funds designated for capital asset acquisition and retirement of OPEB liability.

A. Deposits

At June 30, 2020, the recorded amount of the District's deposits is shown above. This bank balance is partially covered by the Federal Deposit Insurance Corporation (FDIC), which has a limit of $250,000. Amounts in excess of $250,000 are covered by the multiple financial institution collateral pool that insures public deposits in the State of California.

Various amounts of restricted cash are restricted for debt service, project construction, and capacity expansion.

B. Investments

Local Agency Investment Fund. The District maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited in LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. LAIF is not rated by any major investment rating agency.

NOTE 2: CASH AND INVESTMENTS – continued

B. Investments – continued

At June 30, 2020, the District's investment position in LAIF was $3,002,154, which approximates fair value and is the same as value of the pool shares which is determined on an amortized cost basis. LAIF is the only investment reported on an amortized cost basis because the amount available for withdrawal is determined on this basis. The total amount invested by all public agencies in PMIA on that day was $102.4 billion. Of that amount, 52.38% is invested in government bills and notes, 42.56% is invested in short-term, asset-backed commercial paper, with the remaining 5.06% invested in other non-derivative financial products.

Under the California Government Code, the District may only invest its funds in the following investment types:

Investment	Maximum % of Portfolio
U.S. Treasury Obligations	None
U.S. Agency Obligations	None
State and Local Government Bonds	None
Bankers' Acceptances	40%
Commercial Paper	25%
Negotiable Certificates of Deposit/CD Placement Service	30%
Repurchase Agreements	None
Reverse Repurchase Agreements and Loans of Securities	20%
Medium-Term Notes	30%
Mutual Funds and Money Market Mutual Funds	20%
Collateralized Bank Deposits	None
Mortgage Pass-Through Securities	20%
Bank Time Deposits	None
County Pooled Investment Funds	None
Joint Powers Authority Investment Pools	None
Local Agency Investment Fund (LAIF)	None
Supranational Obligations	30%

In addition, the District's Board of Directors must approve investments. At this time, the only investment approved by the Board is the California Local Agency Investment Fund. By limiting its investments to this fund managed in accordance with the California Government Code, the District minimizes its credit quality risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 is summarized below:

	Year Ended June 30, 2019	Additions	Reductions	Transfer/ Adjustment	Year Ended June 30, 2020
Capital assets, non-depreciable:					
Land	$ 463,183	$ -	$ -	$ -	$ 463,183
Capital assets, depreciable:					
Water utility plant	3,147,500	880,553	-	-	4,028,053
Sewer utility plant	8,708,851	364,088	-	-	9,072,939
General plant/equipment - Water	510,548	179,246	-	-	689,794
General plant/equipment - Sewer	537,418	137,267	-	-	674,685
Software	21,750	-	-	-	21,750
Total capital assets, depreciable	12,926,067	1,561,154	-	-	14,487,221
Less accumulated depreciation	(4,721,621)	(351,244)	-	-	(5,072,865)
Total Capital Assets, Net	$ 8,667,629	$1,209,910	$ -	$ -	$ 9,877,539

Depreciation expense for the fiscal year ended June 30, 2020 totaled $351,244 and is charged to Water, Sewer, and Community Facilities activities based on the function and assignment of depreciable assets.

NOTE 4: LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2020, consisted of the following:

	Year Ended June 30, 2019	Additions	Paydowns	Balance June 30, 2020	Amounts Due Within One Year
Installment debt:					
Sale agreement	$ 1,102,524	$ -	$ (55,552)	$ 1,046,972	$ (56,608)
USDA bond	4,708,000	-	(78,000)	4,630,000	(80,000)
CEC loan	-	1,590,800	-	1,590,800	-
Total:	5,810,524	1,590,800	(133,552)	7,267,772	(136,608)
Other long-term liabilities:					
Net pension obligation	883,864	68,733	-	952,597	-
OPEB	1,188,759	-	(21,279)	1,167,480	-
Compensated absences	25,638	-	(2,572)	23,066	(11,533)
Total:	2,098,261	68,733	(23,851)	2,143,143	(11,533)
Total long-term liabilities:	$ 7,908,785	$1,659,533	$(157,403)	$ 9,410,915	$ (148,141)

NOTE 4: LONG-TERM LIABILITIES - continued

On May 16, 2013, the California State Water Resources Control Board (SWRCB) executed a finance agreement with the District to provide up to $1,215,000 in debt financing from the state's Clean Water State Revolving Fund (CWSRF) for the District's wastewater treatment plant improvement project. The proceeds of the financing are disbursed to the District only upon receipt of disbursement requests from the District that itemize project costs incurred. Annual installment payments on the debt are due to the SWRCB March 17 of each year, with annual interest accruing at the rate of 1.9%. Payments began March 17, 2017 and the final payment will be due March 17, 2036. The financing is structured as an installment sale agreement of the wastewater treatment plant improvement and constructed wetlands project. The agreement requires the District to maintain one year of debt service in a reserve fund for the entire term of the agreement. Special tax revenues levied for project purposes under the Community Facilities District are pledged for payment of this and any other debt related to the project and repayment is secured by a lien on these revenues. The District has covenanted to levy special taxes each year in a total amount of at least 1.1 times the total annual debt service. SWCRB reserves the right to require an audit of the District's disbursements reimbursed by the loan proceeds.

On August 15, 2014, the District issued a Special Tax Bond to the United States Department of Agriculture (USDA) to finance necessary improvements to the wastewater treatment plant and the constructed wetlands project. The total face amount of the bond is $5,000,000. The bond bears interest at the rate of 2.75%. The bond matures in annual installments and interest on the bond is payable in semi-annual installments over 40 years commencing on July 1, 2015. The bond is secured by a first lien and pledge of the special tax revenues levied by Community Facilities District 2011-1 for the project. USDA requires the District to set aside a reserve equal to the average annual debt service and a short-lived asset reserve to be funded with $15,730 annually. The bond is payable solely from the Community Facilities District 2011-1 special tax revenues and the assets pledged.

On April 17, 2019, the District entered into an agreement with Halcyon Solar Construction to supply and install photovoltaic electric generating systems (PV systems) at the District facilities to supply solar power. The full cost of this construction totaled $1,590,800 and was financed with a promissory loan bearing a 1% interest rate from the California Energy Commission (CEC). Construction for this solar project was completed in April 2020, which is the date the final disbursement of funds was received from the CEC.

NOTE 4: LONG-TERM LIABILITIES – continued

The table below represents estimated principal and interest payments to maturity on the USDA Special Tax Bond, SWRCB Installment Sale Agreement, and the California Energy Commission loan:

Year Ended June 30,	Principal	Interest	Total
2021	$ 136,608	$ 146,118	$ 282,726
2022	203,660	183,401	387,061
2023	232,297	154,453	386,750
2024	236,263	150,122	386,385
2025	241,335	145,616	386,951
2026-2030	1,275,251	657,580	1,932,831
2031-2035	1,400,828	530,209	1,931,037
2036-2040	1,019,530	398,471	1,418,001
2041-2045	730,000	297,690	1,027,690
2046-2050	837,000	190,149	1,027,149
2051-2055	955,000	66,949	1,021,949
Total	$ 7,267,772	$ 2,920,758	$ 10,188,530

The District's total interest expense incurred is displayed as a non-operating expense on the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 5: RISK MANAGEMENT/INSURANCE JOINT VENTURE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, natural disasters, delivery of water, and treatment and disposal of wastewater. These risks are addressed through the District's membership in the Association of California Water Agencies – Joint Powers Insurance Authority (JPIA). The purpose of the JPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance, or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The JPIA's members have pooled funds in order to be self-insured for general liability, property, pollution liability, and workers' compensation. Each member district pays a premium commensurate with the level of coverage requested, and shares surpluses and deficit proportionate to their participation.

The District has had no settlements that exceeded its insurance coverage in any of the last three years. Complete audited financial statements of the JPIA can be obtained online at www.acwajpia.com.

NOTE 6: PENSION PLAN

A. Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. The District's plan is part of the "Miscellaneous 2% at 60 Risk Pool" within the CalPERS system. All full-time District employees who have been employed for over six months are eligible to participate in CalPERS. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the approval of the District's Board of Directors. Benefits include a periodic pension payment upon retirement, as well as death and survivor benefits. Annual cost of living adjustments are included. Disability retirement is permitted subject to certain requirements. CalPERS makes reports available to the public that provide a detailed description of the pension plan's benefit provisions, actuarial assumptions, membership information, and fiduciary net position. These reports can be found on the CalPERS website at http://www.calpers.ca.gov/.

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% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age (no disability)	50+	52+
Required employee contribution rates	7%	6.25%
Required employer contribution rates	8.563% + $56,576	6.99% + $1,153

B. Funding Policy

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

NOTE 6: PENSION PLAN – continued

B. Funding Policy - continued

The actuarially-determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The District is required to contribute the difference between the actuarially-determined rate and the contribution rate of employees.

Active plan members who were members prior to January 1, 2013 are required to contribute 7 percent of their annual covered salary by state statute; however, the District pays this 7 percent on behalf of employees as a fringe benefit negotiated in past years' pay packages. Active plan members whose membership began on or after January 1, 2013 are required to contribute 6.25%; for these members the District does not contribute the employee's 6.25% on his or her behalf and makes only the contribution required of the employer.

For the year ended June 30, 2020, the employer contributions recognized as deferred outflows of resources were $80,000.

C. Annual Pension Cost and Net Pension Obligation

Beginning with the fiscal year ended June 30, 2015, the District's net pension liability for each Plan is measured as the proportionate share of the total net pension liability for all employers in the plan. The net pension liability for each of the Plans is measured as of June 30, 2019, and the total pension liability for each 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 of the Plan as of June 30, 2020 was approximately 0.02379%.

NOTE 6: PENSION PLAN – continued

C. Annual Pension Cost and Net Pension Obligation - continued

For the year ended June 30, 2020, the District recognized pension expense of $214,372. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 80,000	$ -
Change in employer's proportion	9,628	-
Differences between employer's contributions and proportionate share of contributions	-	66,486
Changes in assumptions	29,322	-
Differences between projected and actual experience	61,036	-
Net differences between projected and actual earnings on plan investments	-	16,654
	$ 179,986	$ 83,140

$80,000 is 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 year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Pension Expense
2021	$ 46,448
2022	(28,415)
2023	(4,551)
2024	3,365
2025	-
Total	$ 16,847

NOTE 6: PENSION PLAN – continued

C. Annual Pension Cost and Net Pension Obligation – continued

The total pension liabilities in the June 30, 2018 actuarial valuations that were used to determine the June 30, 2020 net pension liability shown in these financial statements were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry age normal cost method
Actuarial Assumptions:	
Discount Rate	7.15%*
Investment Rate of Return	7.15% (includes inflation)** projected
Salary Increases	Varies by entry age and service
Inflation	2.75%
Mortality Rate Table	Based on CalPERS membership data for all funds***
Payroll Growth	3.00%
Post Retirement Benefit Increases	Cost of Living Adjustments per contract up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applied, 2.75% thereafter

* The discount rate used to measure the total pension liability was 7.15% for each Plan.

Expectations about future cash flows used in the development of the discount rate assume that both members and employers will make all required contributions on time and as scheduled in all future years. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially-assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF) and all periods of projected benefits. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

NOTE 6: PENSION PLAN – continued

C. Annual Pension Cost and Net Pension Obligation – continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.33%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

Real Return Years 1-10: An expected inflation of 2.00% used for this period
Real Return Years 11+ : An expected inflation of 2.92% used for this period

***The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 6: PENSION PLAN – continued

C. Annual Pension Cost and Net Pension Obligation – continued

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as estimated amounts for what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate 6.15%	Discount Rate 7.15%	Discount Rate 8.15%
Net Pension Liability	$ 1,557,571	$ 952,597	$ 453,234

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description

The District makes medical insurance coverage available to eligible retired employees and their spouses through an agent multiple-employer plan governed by the Public Employees' Medical & Hospital Care Act (PEMHCA) and administered by the District. Employees are generally eligible for this benefit after reaching age 60 and accumulating 20 years of service to the District. As of June 30, 2020, the plan covered seven active employees (assuming these employees meet plan eligibility requirements upon retirement) and two retired District employees who were then receiving benefits. Pursuant to a decision of the Board on July 21, 2015, the District will pay 100% of the high-deductible health plan premiums plus 100% of the dental and vision premiums for current employees and spouses who are eligible to receive the benefit upon retirement. Employees may elect another plan but are required to pay the difference in cost between the plan chosen and the high-deductible health plan. Benefits are provided by the Association of California Water Agencies in exchange for premiums paid by the District. The plan is offered per District policy and benefit provisions may be amended at the District's option. Prefunding contributions are made to the California Employers Retiree Benefit Trust (CERBT) Fund administered by the California Public Employees Retirement System (CalPERS). No stand-alone reports are issued for the plan other than the audited financial report from CERBT that displays separate fiduciary net position balances for each employer. The report is available on the CalPERS website at:

https://www.calpers.ca.gov/page/employers/benefit-programs/cerbt

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS - continued

B. Contributions

In addition to making direct payments for current retiree benefits due, the District makes a discretionary additional contribution to the CERBT trust as determined during each year's budgeting process based on an analysis of funding priorities and approved by the Board of Directors. For the fiscal year ended June 30, 2020, the District contributed $27,351 in direct payments for retiree health premiums and an additional $21,280 in contributions to CERBT. No contribution is currently required of plan members.

C. Measurement of the Net OPEB Liability and Underlying Assumptions

The District's net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by a valuation under the alternative measurement method dated July 1, 2019 that was rolled forward to determine the June 30, 2020 total OPEB liability, based on the following assumptions:

Discount Rate	5.50%*
Long-term Rate of Return on Plan Investments	5.50%
Municipal Bond 20-Year High Grade Rate	3.62%
Ultimate Trend Rate	5%
Healthcare Trend Rates 2017	6%
Later years	5% Dental, Vision, and Other
Trend Rate	4%
Age-adjustment Factor	4%
Salary Increase	3%
Pre-Retirement Mortality Rate	RP-2014 Employee Mortality Table **
Post-Retirement Mortality Rate	RP-2014 Healthy Annuitant Mortality Table**
Pre-Retirement Turnover	Crocker-Sarason T5 Table Published in The Actuary's Pension Handbook in 1955

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS - continued

C. Measurement of the Net OPEB Liability and Underlying Assumptions - continued

* In order to determine the discount rate, the projected benefit payments related to current employees for each future period were compared to the projected fiduciary net position available to make those payments. In periods where the fiduciary net position was projected to equal or exceed the benefit payments required, the value of projected benefits to be paid in that period was discounted to the present value using the long-term rate of return on plan investments shown above. In periods where the fiduciary net position was projected to fall below the projected benefit payments, the value of projected payments to be paid in that period was discounted using the municipal bond 20-year high grade bond rate shown above. The discount rate above is the single (blended) rate that, when applied to all projected benefits regardless of whether fiduciary net position is projected to be sufficient, yields the same present value of projected benefits as the present value obtained by applying the long-term investment rate of return or the municipal bond 20-year high grade rate separately to each projected period based on whether or not the fiduciary net position is expected to be sufficient, as discussed above.

The projected fiduciary net position for purposes of determining the discount rate, as discussed above, was based on the assumption that the District will continue to pay all retiree premiums as they come due (“pay-as-you-go financing”) pursuant to the District’s written policy, plus a flat contribution to the CERBT trust of $21,280 per year based on the District’s current budget amount. In accordance with GASB 75, paragraph 37, a portion of these projected contributions was allocated toward the service cost of future employees and therefore removed from the projection of fiduciary net position available to finance the costs of current employees. The amount allocated to future employees was assumed to be 8.44% of projected future employee payroll in each future period projected.

** The RP-2014 Mortality Tables are published by the Society of Actuaries, based on data from 123 private and public pension plans from the years 2004 through 2008. The tables used were specific to males or females, as appropriate, and used without projection.

The assumptions used are subject to change as new information becomes available. Actuarial valuations of the ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and are continually revised as actual results are evaluated in light of previous expectations and new expectations are set. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS - continued

C. Measurement of the Net OPEB Liability and Underlying Assumptions - continued

The schedule of funding progress, presented as RSI following the notes to basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The calculations are based on the substantive plan as it is in place at the time of each valuation.

The following presents the net OPEB liability 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, 2020:

Discount Rate	1% Decrease 4.50%	Current Rate 5.50%	1% Increase 6.50%
Net OPEB Liability	$ 939,453	$ 796,356	$ 678,932

The following presents the net OPEB liability 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, 2020:

Discount Rate	1% Increase 7.00% Decreasing to 6.00%	Current Rate 6.00% Decreasing to 5.00%	1% Decrease 5.00% Decreasing to 4.00%
Net OPEB Liability	$ 662,826	$ 796,356	$ 961,847

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS - continued

D. Changes in the OPEB Liability

The changes in the net OPEB liability for the plan are as follows:

	(Increase)/Decrease in Net OPEB Liability		
	Total OPEB	Plan Fiduciary Net	Net OPEB Liability
Balances at 6/30/2019	$ (1,396,967)	$ 208,207	$ (1,188,760)
Changes for the year:			
Service cost	(30,467)	-	(30,467)
Interest	(54,778)	-	(54,778)
Experience differences	152,587	-	152,587
Assumption changes	311,082	-	311,082
Other	(45,693)	-	(45,693)
Contribution-employer	-	48,631	48,631
Net investment income	-	11,202	11,202
Benefit payments	27,351	(27,351)	-
Administrative expense	-	(160)	(160)
Net changes	360,082	32,322	392,404
Balances at 6/30/2020	$ (1,036,885)	$ 240,529	$ (796,356)

E. Deferred Outflows and Inflows.

Deferred inflows and outflows related to OPEB are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	29,100	273,602
Differences between projected and actual experience	-	134,203
Net differences between projected and actual earnings on plan investments	813	2,294
	$ 29,913	$ 410,099

NOTE 8: RESTRICTED AND UNRESTRICTED NET ASSETS

The District's net position that is not invested in capital assets is divided between restricted and unrestricted portions. Restricted net position consists of the water and sewer expansion fees received and the interest earned thereon, which can only be used towards costs to expand the facilities, and special taxes collected under Community Facilities District 2011-1 for the purposes project construction and debt service requirements on the Wastewater Treatment Plant project. When restricted funds are used for construction of eligible fixed assets, the restricted and unrestricted portions of net position are adjusted accordingly. The total amount of net position restricted by enabling legislation as of June 30, 2020 was $1,346,545.

NOTE 9: GANN/PROPOSITION 4 APPROPRIATIONS LIMIT

Article XIII-B of the California Constitution establishes a limit on the amount that may be appropriated for spending out of the proceeds of taxes for any given fiscal year. The limit for each year is calculated by applying a cost-of-living and population change factor to the previous year's limit. Government Code Section 7910 requires adoption of the limit by the Board of Directors.

As the District's revenues include charges or services and other revenue that is not from the proceeds of taxes, only the amount appropriated from the proceeds of taxes is subject to the limit.

The calculation of the District's Gann/Proposition 4 appropriations limit for the year ended June 30, 2020 and the preceding fiscal year is as follows:

Fiscal Year	Base Limit	% of CPI	% of Population	Overall % Increase	Appropriation Limit
Water					
2018-2019	$ 205,036	1.0367%	1.0014%	1.0382%	$ 212,858
2019-2020					
Sewer					
2018-2019	$ 79,354	1.0367%	1.0014%	1.0382%	$ 82,382
2019-2020					
Community Facilities District 2011-1					
2018-2019	$ 1,084,563	1.0367%	1.0014%	1.0382%	$ 1,125,940
2019-2020					

The limits calculated above exceed the proceeds of taxes for both fiscal years presented.

NOTE 10: DEFERRED COMPENSATION AND SAVINGS PLANS

The District adopted a "Cafeteria Plan" for their employees, which allows them to use pre-tax wages for their share of medical coverage, and other benefits. This plan is administered by a third party.

The District offers eligible employees the option of contributing a portion of their salary to a deferred compensation plan established in accordance with Section 457 of the Internal Revenue Code. Employee contributions made to this plan are generally held until the termination, retirement, or death of the employee and are usually not taxable to the employee until they are paid or made available to the employee. The plan is administered by a third party.

The District has no liability for any losses sustained by employees through these plans.

NOTE 11. COVID-19 MATTERS

The COVID-19 outbreak in early 2020 has caused business disruption through mandated and voluntary shelter-in-place orders, and the economic impact on the State of California and the County of Tehama has been severe. Due to the nature of the District and its primary sources of funding through property tax assessments and necessary user service fees, management has maintained a consistent budget and the District has not experienced any interruptions in operations.

NOTE 12. SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 9, 2021, the date the financial statements were available to be issued. Management has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

RIO ALTO WATER DISTRICT

Required Supplementary Information (Unaudited) - Pensions
For the Year Ended June 30, 2020

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

Year Ended June 30,	Proportion of net pension liability	Proportionate share of net pension liability	Covered payroll	Proportionate share of the net pension liability as a % of covered employee payroll	Plan fiduciary net position as a % of the total pension liability
2014	0.01113%	$ 692,801	$ 372,321	186.08%	80.14%
2015	0.02170%	595,385	444,747	133.87%	79.89%
2016	0.02313%	803,377	451,828	177.81%	75.87%
2017	0.02353%	927,731	465,211	199.42%	75.39%
2018	0.02345%	883,863	467,365	189.12%	75.39%
2019	0.02379%	$ 952,597	$ 450,733	211.34%	78.82%

Schedule of Contributions

Year Ended June 30,	Contractually required contribution (actuarially determined)	Contributions in relation to the actuarially-determined contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a % of covered payroll	Valuation Date
2014	$ 58,142	$ (58,142)	$ -	372,321	15.62%	6/30/2012
2015	63,772	(63,772)	-	444,747	14.34%	6/30/2013
2016	77,672	(77,672)	-	451,828	17.19%	6/30/2014
2017	95,060	(95,060)	-	465,211	20.43%	6/30/2015
2018	76,525	(76,525)	-	467,365	16.37%	6/30/2016
2019	$ 80,000	$ (80,000)	$ -	450,733	17.75%	6/30/2017

Although GAAP requires a 10-year history of the above information, the data is only available for the periods transpired since the implementation of GASB 68. A summary of the principal assumptions and methods used to determine the contribution rates presented above for the relevant valuation date is below:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry age normal cost method
Actuarial Assumptions:	
Discount Rate	7.15%*
Investment Rate of Return	7.15% (includes inflation)** projected
Salary Increases	Varies by Entry Age and Service
Inflation	2.75%
Mortality Rate Table	Based on CalPERS membership data for all funds***
Payroll Growth	3.00%
Post Retirement Benefit Increases	Cost of Living Adjustments per contract up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applied

RIO ALTO WATER DISTRICT

Required Supplementary Information (Unaudited) - Pensions
For the Year Ended June 30, 2020

Schedule of Contributions

Fiscal year ended	2019	2020
Valuation date	7/1/2018	7/1/2019
Actuarially determined contribution (ADC)	$ 79,864	$ 76,525
Contributions in relation to the ADC	(48,489)	(47,901)
Contribution deficiency (excess)	$ 31,375	$ 28,624
Covered-employee payroll	$ 467,365	$ 510,349
Contributions as a % of covered payroll	10.37%	9.39%

Historical information is required only for measurement periods for which GASB 75 is applicable. The District implemented GASB 75 for the measurement period ending June 30, 2019. Future presentations will display up to 10 years of historical data.

Methods and assumptions used to determine contributions:

Discount Rate		4.60%
Long-term Rate of Return on Plan Investments		5.50 %
Municipal Bond 20-year High Grade Rate		3.62%
Ultimate Trend Rate		5%
Healthcare Trend Rates	2017	6%
	Later years	5%
Dental, Vision, and Other Trend Rate		4%
Age-adjustment factor		4%
Cap inflator (full inflation)		0%
Percent of Retirees with Spouses		60%
Salary Increase		3%
Pre-Retirement Mortality Rate		RP-2014 Employee Mortality Table based on experience data from 2004-2008
Post-Retirement Mortality Rate		RP-2014 Healthy Annuitant Mortality Table based on experience data from 2004-2008
Pre-Retirement Turnover		Crocker-Sarason T5 Table Published in the Actuary's Pension Handbook in 1955

RIO ALTO WATER DISTRICT

Required Supplementary Information (Unaudited) - OPEB
For the Year Ended June 30, 2020

Schedule of Changes in the Net OPEB Liability and Related Ratios

For the measurement period ending	2018	2019	2020
Valuation date	7/1/2017	7/1/2018	7/1/2019
Total OPEB Liability			
Service cost	$ 46,486	$ 46,486	$ 30,467
Interest on the total OPEB liability	56,478	60,587	54,778
Benefit payments	(26,986)	(27,209)	(27,351)
Experience differences	-	-	(152,587)
Assumption changes	-	-	(311,082)
Other	-	-	45,693
Net change in total OPEB liability	75,978	75,978	(360,082)
Beginning total OPEB liability	1,241,125	1,317,103	1,396,967
Ending total OPEB liability (a)	$ 1,317,103	$ 1,396,967	$ 1,036,885
Plan Fiduciary Net Position			
Contributions - employer	$ 48,266	$ 48,489	$ 48,489
Net investment income	8,925	13,896	13,896
Benefit payments	(26,986)	(27,209)	(27,209)
Administrative expense	(272)	(91)	(91)
Net change in plan fiduciary net position	29,933	35,085	35,085
Beginning plan fiduciary net position	143,189	173,122	208,207
Ending plan fiduciary net position (b)	$ 173,122	$ 208,207	$ 243,292
Net OPEB Liability (a) - (b)	$ 1,143,981	$ 1,188,760	$ 793,593
Plan fiduciary net position as a % of the total OPEB liability	13.14%	14.90%	23.46%
Covered-employee payroll	$ 465,211	$ 465,211	$ 510,349
Net OPEB liability as a % of covered-employee payroll	245.91%	255.53%	155.50%

Historical information is required only for measurement periods for which GASB 75 is applicable. The District implemented GASB 75 for the measurement period ending June 30, 2018. Future presentations will display up to 10 years of historical data.

OTHER SUPPLEMENTARY INFORMATION

RIO ALTO WATER DISTRICT
SUPPLEMENTARY STATEMENT OF NET POSITION BY ACTIVITY
JUNE 30, 2020

	Water	Sewer	Community Facilities	Totals
Current Assets:				
Cash and cash equivalents	$ 1,080,957	$ -	$ -	$ 1,080,957
Accounts receivable	56,133	156,073	-	212,206
Less allowance for doubtful accounts	(1,192)	(1,240)	-	(2,432)
Interest receivable	5,880	2,609	3,979	12,468
Prepaid expenses	6,928	-	-	6,928
Inventory	13,591	612	-	14,203
Total current assets	1,162,297	158,054	3,979	1,324,330
Noncurrent Assets:				
Investments designated for capital asset acquisition and retirement of OPEB liability	583,624	201,072	-	784,696
Restricted cash	46,627	186,645	1,331,499	1,564,771
Delinquent accounts receivable	74,099	14,954	-	89,053
Delinquent taxes receivable	-	-	89,365	89,365
Advance to other activity	939,755	-	-	939,755
Capital assets, net	2,280,530	1,124,026	6,472,983	9,877,539
Total noncurrent assets	3,924,635	1,526,697	7,893,847	13,345,179
Total Assets	5,086,932	1,684,751	7,897,826	14,669,509
Deferred Outflows of Resources				
Deferred outflows related to OPEB	15,144	14,769	-	29,913
Deferred outflows related to pensions	91,299	88,687	-	179,986
Liabilities				
Current Liabilities:				
Accounts payable	8,114	-	-	8,114
Accrued interest payable	6,444	2,783	69,465	78,692
Long-term debt, due within one year	36,298	10,693	136,608	183,599
Total current liabilities	50,856	13,476	206,073	270,405
Long-Term Liabilities:				
Advance from other activity	-	930,922	8,833	939,755
Long-term liabilities due beyond one year	1,974,005	1,320,542	5,540,364	8,834,911
Total long-term liabilities	1,974,005	2,251,464	5,549,197	9,774,666
Total Liabilities	2,024,861	2,264,940	5,755,270	10,045,071
Deferred Inflows of Resources				
Deferred inflows related to OPEB	207,616	202,483	-	410,099
Deferred inflows related to pension	39,718	43,422	-	83,140
Net Position				
Net investment in capital assets, net of related debt	1,169,480	644,276	796,011	2,609,767
Restricted	-	116,714	1,346,545	1,463,259
Unrestricted	1,751,700	(1,483,628)	-	268,072
Total Net Position	$ 2,921,180	$ (722,638)	$ 2,142,556	$ 4,341,098

See accompanying Independent Auditor's Report.

RIO ALTO WATER DISTRICT
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2020

	Water	Sewer	Community Facilities	Totals
Operating Revenues				
Utility services (net of $3,613 of bad debt)	$ 572,762	$ 533,209	$ -	$ 1,105,971
Hydrant charges	31,553	-	-	31,553
Other charges	21,069	14,306	-	35,375
Total operating revenues	625,384	547,515	-	1,172,899
Operating Expenses				
Payroll	282,235	216,709	-	498,944
Payroll benefits	223,506	195,725	-	419,231
Utilities	64,434	27,771	-	92,205
Tools and supplies	32,355	35,706	-	68,061
Contracted services	7,660	7,691	-	15,351
Maintenance	17,681	29,906	-	47,587
Insurance	13,260	8,840	-	22,100
Directors' fees	4,248	2,832	-	7,080
Office expenses	9,817	6,243	-	16,060
Legal and audit	9,170	6,687	1,220	17,077
Regulatory fees	8,491	27,287	-	35,778
Wastewater permit testing	-	12,314	-	12,314
Other expenses	16,236	9,436	-	25,672
Depreciation	122,351	76,177	152,716	351,244
Total operating expenses	811,444	663,324	153,936	1,628,704
Operating loss	(186,060)	(115,809)	(153,936)	(455,805)
Non-Operating Revenues (Expenses)				
Special Community Facilities District Tax	-	-	341,040	341,040
Property taxes	127,313	64,000	-	191,313
Connection and capacity expansion fees	107,127	87,047	-	194,174
Penalties from Tehama County	598	399	-	997
Lease income	16,355	12,545	-	28,900
Interest income	29,451	8,870	30,541	68,862
Interest expense	(6,444)	(2,783)	(148,083)	(157,310)
Consultants for non-operating activities	-	-	(12,824)	(12,824)
Total non-operating revenues (expenses)	274,400	170,078	210,674	655,152
Increase in Net Position	88,340	54,269	56,738	199,347
Net position - beginning of the year	2,832,840	(776,907)	2,085,818	4,141,751
Net position - end of the year	$ 2,921,180	$ (722,638)	$ 2,142,556	$ 4,341,098

See accompanying Independent Auditor's Report.

RIO ALTO WATER DISTRICT
SUPPLEMENTARY STATEMENT OF CASH FLOWS BY ACTIVITY
FOR THE YEAR ENDED
JUNE 30, 2020

	Water	Sewer	Community Facilities	Total
Cash flows from operating activities:				
Cash received from customers and users	$ 608,753	$ 506,837	$ -	$1,115,590
Cash received from others	21,069	14,306	-	35,375
Cash paid to suppliers	(205,209)	(174,886)	(1,220)	(381,315)
Cash paid to employees and related benefits	(459,697)	(359,616)	-	(819,313)
Net cash provided (used) by operating activites	(35,084)	(13,359)	(1,220)	(49,663)
Cash flows from capital financing activities:				
Cash received from connection charges	107,127	87,047	-	194,174
Cash received from special taxes for sewer project	-	-	341,040	341,040
Cash paid for suppliers for non-operating activities	-	-	(12,824)	(12,824)
Purchases of capital assets	(1,059,799)	(501,353)	-	(1,561,152)
Proceeds from capital debt	1,111,050	479,750		1,590,800
Interest paid on capital debt	-	-	(149,347)	(149,347)
Payments on long-term debt	-	-	(133,552)	(133,552)
Net cash provided (used) by capital financing activities	158,378	65,444	45,317	269,139
Cash flows from non-capital financing activities:				
Cash received from ad valorem property taxes	127,313	64,000	(12,061)	179,252
Cash received from property tax penalties	598	399	-	997
Internal advance received (paid)	87,168	(93,311)	6,143	-
Net cash provided by non-capital financing activites	215,079	(28,912)	(5,918)	180,249
Cash flows from investing activities:				
Lease payments received for use of property	16,355	12,545	-	28,900
Interest on investments	31,224	8,318	34,403	73,945
Net cash provided by investing activities	47,579	20,863	34,403	102,845
Increase in cash and cash equivalents	385,952	44,036	72,582	502,570
Cash and cash equivalents, beginning of the year	1,325,257	343,680	1,258,917	2,927,854
Cash and cash equivalents, end of the year	$1,711,209	$ 387,716	$ 1,331,499	$3,430,424

(Continued)

RIO ALTO WATER DISTRICT
SUPPLEMENTARY STATEMENT OF CASH FLOWS BY ACTIVITY
FOR THE YEAR ENDED
JUNE 30, 2020

(Continued)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	**Water**	**Sewer**	**Community Facilities**	**Total**
Operating loss	$ (186,060)	$(115,809)	$ (153,936)	$ (455,805)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	122,351	76,177	152,716	351,244
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	4,438	(26,372)	-	(21,934)
(Decrease) in allowance for doubtful accounts	-	-	-	-
Decrease in delinquent accounts receivable	-	-	-	-
(Increase) in inventory	(422)	(173)	-	(595)
(Increase) in prepaid expenses	(2,173)	-	-	(2,173)
(Decrease) in accounts payable	(19,262)	-	-	(19,262)
(Decrease) in accrued compensated absences	(2,572)	-	-	(2,572)
(Decrease) in net OPEB	(18,345)	(15,152)	-	(33,497)
Increase in net pension	66,961	67,970		134,931
Net cash provided (used) by operating activities	$ (35,084)	$ (13,359)	$ (1,220)	$ (49,663)

See accompanying Independent Auditor's Report.

Advances To/From Other Activity and Prior Period Adjustment

The accompanying Supplemental Statement of Net Position by Activity displays an internal advance between the water and sewer activities that was determined based on the cumulative total amount by which the reported expenses of the sewer activity exceeded the revenues of that activity since its inception. The methodology by which employee benefit and indirect costs are allocated between the activities has a material impact in determining the ultimate ending balance of this internal asset/liability. Prior to the 2015-2016 fiscal year, employee benefit expenses and other indirect costs had been allocated between the water and sewer activities based on a fixed allocation formula of 60% to Water and 40% to Sewer which was not adjusted for changes in the employee or administrative effort devoted to the activities. In addition, office personnel cost had been allocated in a higher percentage to sewer than an analysis of their job duties might suggest, given that water billing is more time-consuming and customer service intensive than sewer billing.

Based on an analysis of financial data, the District has decided to restate the internal advance between the water and sewer activities to what it would have been if the employee benefit costs since July 1, 1998 had been allocated in a manner consistent with the related employee salaries and if the office personnel had been allocated between the activities in a way that takes into account the demands of the water billing process. This adjustment is shown in the accompanying supplemental statements as a prior period adjustment.

Although the District began accumulating the liability from the sewer to the water activity at the inception of sewer service in the 1970s, the District was under an obligation pursuant to the terms of a legal settlement to provide sewer services even though it was not feasible for the sewer to be self-sustaining at that point with the very small number of sewer customers then connected to the system. In addition, the Proposition 218 requirements for rates that do not exceed the reasonable cost of providing services did not go into effect until 1998. The above adjustment does not include an adjustment for any amounts that accumulated prior to July 1, 1998. These amounts have been segregated into a separate general ledger account in the District’s books, and the District plans to address this pre-1998 portion of the balance once the more recent balance has been retired. The total amount of the liability from the sewer activity to the water activity that had accumulated prior to July 1, 1998 was $283,863.

The District has also reallocated pension and other post-employment benefit liabilities arising prior to July 1, 2017 equally to water and sewer based on the long-term historical breakdown of salary costs between the two entities.