

MIDWAY HEIGHTS COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

MIDWAY HEIGHTS COUNTY WATER DISTRICT

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Basic Financial Statements	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Net Position.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements.....	6
Required Supplementary Information:	
Schedule of the Plan’s Proportionate Share of the Net Pension Liability.....	18
Schedule of District’s Pension Contribution.....	19

LARRY BAIN, CPA

An Accounting Corporation

2148 Frascati Drive, El Dorado Hills, CA 95762 / 916.601-8894

lpbain@sbcglobal.net

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Midway Heights County Water District
Meadow Vista, California

We have audited the accompanying financial statements of the Midway Heights County Water District as of and for the fiscal 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.

Auditors' Responsibility

Our Responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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 business-type activities of the Midway Heights County Water District as of June 30, 2020, and the changes in financial position and the results of its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of Midway Heights County Water District for the year ended June 30, 2019, and we expressed an unmodified audit opinion on that financial statement in our report dated February 17, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Midway Height County Water District has not presented the Management Discussion and Analysis, that accounting principles generally accepted in the United States has determined are necessary to supplement, although not required to be part of, the basic financial statements.

Accounting principles generally accepted in the United States of America require that the supplementary information other than MD&A, as listed in the table of contents on page 18 as the Schedule of the Pension Plan's Proportionate Share of the Net Pension Liability and page 19 the Schedule of District Pension Contributions, 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 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.

Larry Bain, CPA,
An Accounting Corporation
April 5, 2021

MIDWAY HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2020

(WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2019)

Assets	2020	2019
Current Assets		
Cash	\$ 36,257	\$ 57,141
Investments	430,496	316,797
Accounts receivable	107,410	105,267
Grant receivable	2,971	13,138
Current assessments receivable	921	84,332
Inventory	26,648	27,737
Prepaid expense	6,186	4,512
Total current assets	<u>610,889</u>	<u>608,924</u>
Noncurrent Assets		
Long-term assessments receivable		
Restricted cash and investments	241,374	424,426
Capital assets		
Nondepreciable capital assets		
Construction in progress	32,756	32,756
Depreciable capital assets		
Improvements	65,673	65,673
Equipment	229,592	229,592
Transmission and distribution	3,718,928	3,718,928
General	20,352	20,352
Less accumulated depreciation	<u>(1,845,428)</u>	<u>(1,722,495)</u>
Total depreciable capital assets	<u>2,189,117</u>	<u>2,312,050</u>
Total capital assets (net of accumulated depreciation)	<u>2,221,873</u>	<u>2,344,806</u>
Total noncurrent assets	<u>2,463,247</u>	<u>2,769,232</u>
Total assets	<u>3,074,136</u>	<u>3,378,156</u>
Deferred Outflows of Resources		
Deferred outflow-pension	56,711	53,635
Total deferred outflows of resources	<u>56,711</u>	<u>53,635</u>
Liabilities		
Current Liabilities		
Accounts payable	23,578	26,796
Accrued payroll	20,662	19,007
Accrued interest payable	1,873	3,542
Deposits	-	3,694
Total current liabilities	<u>46,113</u>	<u>53,039</u>
Long-Term Liabilities		
Due within one year	69,038	218,308
Due in more than one year	793,179	844,093
Total long-term liabilities	<u>862,217</u>	<u>1,062,401</u>
Total liabilities	<u>908,330</u>	<u>1,115,440</u>
Deferred Inflows of Resources		
Deferred inflow-pension	1,387	1,279
Total deferred inflows of resources	<u>1,387</u>	<u>1,279</u>
Net Position		
Net investment in capital assets	1,609,420	1,544,155
Restricted for:		
Debt service	259,562	210,538
Unrestricted	352,148	560,379
Total net position	<u>\$ 2,221,130</u>	<u>\$ 2,315,072</u>

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

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2019)**

	2020	2019
Operating revenue		
Water sales	\$ 598,775	\$ 600,483
Total operating revenues	598,775	600,483
Operating expenses		
Water purchases	149,884	139,649
Personnel services	329,340	295,222
Services and supplies	29,685	36,244
Administration and general	110,231	93,741
Depreciation	122,933	121,254
Total operating expenses	742,073	686,110
Operating income (loss)	(143,298)	(85,627)
Nonoperating revenue (expenses)		
Property taxes	49,870	47,909
Interest income	10,822	12,543
Bond assessments interest	649	6,053
Grant revenue	9,884	13,138
Gain on sale of assets	-	8,451
Interest expense	(21,869)	(25,070)
Nonoperating revenues (expenses)	49,356	63,024
Increase (decrease) in net position	(93,942)	(22,603)
Net position, beginning	2,315,072	2,409,405
Prior period adjustment		(71,730)
Net position, ending	\$ 2,221,130	\$ 2,315,072

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

MIDWAY HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

JUNE 30, 2020

(WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2019)

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	\$ 592,938	\$ 599,683
Cash payments to suppliers for goods and services	(293,600)	(261,024)
Cash payments to employees for services	(320,231)	(298,881)
Net cash provided by (used in) operating activities	<u>(20,893)</u>	<u>39,778</u>
Cash flows from noncapital and related financing activities:		
Proceeds from property tax and assessments	49,870	47,909
Proceeds from grants	20,051	
Net cash provided by noncapital financing activities	<u>69,921</u>	<u>47,909</u>
Cash flows from capital and related financing activities:		
Additions to capital assets		(5,489)
Sale of assets		8,451
Principal payment for debt	(210,609)	(108,669)
Interest paid on debt	(23,538)	(23,376)
Property assessment for debt service	84,060	76,553
Net cash used in capital and related financing activities	<u>(150,087)</u>	<u>(52,530)</u>
Cash flows from investing activities:		
Interest received on investments	10,822	12,543
Net increase (decrease) in cash and cash equivalents	(90,237)	47,699
Cash and cash equivalents, beginning of year	798,364	750,665
Cash and cash equivalents, end of year	<u>\$ 708,127</u>	<u>\$ 798,364</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash	\$ 36,257	\$ 57,141
Investments	430,496	316,797
Restricted cash and investments	241,374	424,426
Cash and cash equivalents, June 30	<u>\$ 708,127</u>	<u>\$ 798,364</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating Income (Loss)	\$ (143,298)	\$ (85,627)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	122,933	121,254
Changes in assets and liabilities:		
Accounts receivable	(2,143)	(4,194)
Inventory	1,089	554
Prepaid expenses	(1,674)	2,255
Accounts payables	(3,215)	5,801
Accrued payroll	1,655	(1,009)
GASB 68 pension adjustments	4,386	(3,722)
Deposit liability	(3,694)	3,394
Compensated absences	3,068	1,072
Net cash provided by (used in) operating activities	<u>\$ (20,893)</u>	<u>\$ 39,778</u>

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

MIDWAY HEIGHTS COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies

The Midway Heights County Water District was established in November 1954 in Placer County. The District was formed under Division 12 of the California Water Code to provide water to the District's residents. The District encompasses 4.1 square miles and has 766 active customer connections. The District is governed by five Board of Directors elected by the District's residents. The basic operating revenues of the District are charges for delivered water services.

A. Reporting Entity

The District has defined its reporting entity in accordance with generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with Governmental Accounting Standards Board Statement No. 61.

B. Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund – An Enterprise fund is used to account for the District's water operations that is financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The accompanying financial statements have been prepared on the full accrual basis of accounting. This is a basis of accounting that conforms to accounting principles generally accepted in the United States of America.

U.S. generally accepted accounting principles require all proprietary funds to use the accrual basis of accounting. The revenues are recognized when they are earned. Expenses are recognized under the accrual basis of accounting when the related fund liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

D. Prepaid Expenses

Accounts for prepaid insurance, dues and other expenses.

E. Property Taxes

The District receives property taxes from the County of Placer, which has been assigned the responsibility for assessment, collections, and apportionment of property taxes for all taxing jurisdictions within the County. Secured property taxes are levied on January 1 for the following fiscal year and on which date it becomes a lien on real property. Secured property taxes are due in two installments on November 1 and February 1 and are delinquent after December 10 and April 10, respectively, for the secured roll. Based on a policy by the County called the Teeter Plan, 100% of the allocated taxes are transmitted by the County to the District, eliminating the need for an allowance for uncollectible. The County, in return, receives all penalties and interest. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid by August 31. Property tax revenues are recognized in the fiscal year they are received.

F. Fixed Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at fair value at the date of donation. The District's policy is to capitalize all capital assets with costs exceeding \$1,000.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each fiscal year represents that year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the costs of the capital asset is divided by its expected useful life in years and the result is charged to expense each year until the capital asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Structures	20-30 years
Improvements and infrastructure	50-75 years
Distribution and field equipment	5-10 years
Office furniture and equipment	3-5 years

G. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes bank accounts and deposits with Placer County Pooled Funds.

H. Accrued Unbilled Revenue

During the year, metered water connections are read and bills are rendered after the period of usage. Revenue for water distributed but not yet billed is accrued at fiscal year-end to match revenues with related expenses.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

I. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

J. Inventory

Inventory consists of water and irrigation system parts and supplies. Inventory is valued at cost using the first-in, first-out method of accounting.

K. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net investment in capital assets-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position-This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

M. 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.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 2: Cash and Investments

Cash and investments at June 30, 2020, consisted of the following:

Cash	\$	36,257
Investments		430,496
Restricted investments		241,374
Total cash and investments	\$	708,127
General checking	\$	36,057
Savings		33,826
Petty cash/change fund		200
County cash		638,044
Total cash and investments	\$	708,127

A. Investments Authorized by the California Government Code and the Entity’s Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	None	None
U.S. treasury obligations	5 years	None	None
State of California obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable CDs	5 years	30%	None
Repurchase agreements	1 years	None	None
Reverse repurchase agreements	92 days	20%	None
Medium term notes	5 years	30%	None
Mutual/money market funds	5 years *	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	15%
Time deposits	5 Years	None	None
Local Agency Investment Fund (LAIF)	5 years *	None	None

* The five year maximum maturity can be extended by the Board of Directors. Also, the maximum maturity can be extended if the funds are reserved for bond, COP or note payments to coincide with the required repayments.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 2: Cash and Investments (Continued)

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and 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 distribution of the District's investment by maturity:

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
Placer County pooled funds*	\$ 638,044	\$ 638,044	\$ -
Totals	\$ 638,044	\$ 638,044	\$ -

*Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2020, the District's deposits balance was \$70,333 and the carrying amount was \$69,883. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by the Federal Depository Insurance Corporation and the remainder (if any) was covered by collateral held in the pledging bank's trust department in the District's name.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 2: Cash and Investments (Continued)

E. Investment in Placer County Investment Pool

The District maintains certain cash and investments with the Placer County Treasurer in an investment pool. The District's funds are managed in accordance with the investment policy of the County Treasury. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding the categorization of investments and investment risk can be found in the County's financial statements. The Placer County's financial statements may be obtained online at the following link: www.placer.ca.gov/2131/Financial-Reports. Required disclosures for the District's investment in the Placer County Investment Pool at June 30, 2020 are as follows:

Credit risk:	Not rated
Custodial risk:	Not applicable
Concentration of credit risk:	Not applicable
Interest rate risk:	Not available

Note 3: Capital Assets

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

	Balance 7/1/2019	Additions	Retirements	Balance 6/30/2020
Capital assets, not being depreciated				
Construction in progress	\$ 32,756			\$ 32,756
Capital assets, being depreciated				
Improvements	65,673			65,673
Equipment	229,592			229,592
Transmission and distribution	3,718,928			3,718,928
General	20,352			20,352
Total capital assets, being depreciated	4,034,545			4,034,545
Less accumulated depreciation:	(1,722,495)	(122,933)		(1,845,428)
 Total capital assets, being depreciated, net	 2,312,050	 (122,933)		 2,189,117
 Total capital assets, net	 \$ 2,344,806	 \$ (122,933)	 \$ -	 \$ 2,221,873

Depreciation expense for the fiscal year ended June 30, 2020 was \$122,933.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 4: Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2020:

	Balance 7/1/2019	Additions	Retirements	Balance 6/30/2020	Due Within One Year
Compensated Absences	\$ 25,716	\$ 12,948	\$ (9,880)	\$ 28,784	\$ 4,940
Net Pension Liability	71,928	7,356		79,284	-
State Revolving Fund Loan	691,519		(39,080)	652,439	39,987
Note Payable-West Am	125,025		(23,315)	101,710	24,131
Note Payable	148,213		(148,213)		-
Total	<u>\$ 1,062,401</u>	<u>\$ 20,304</u>	<u>\$ (220,488)</u>	<u>\$ 862,217</u>	<u>\$ 69,058</u>

Long-term obligations consisted of the following:

Compensated Absences

District employees accumulate earned but unused vacation benefits that can be converted to cash at termination or retirement from employment. District employees earn and accrue vacation time based on years of service. Employees may not accumulate more than two years of vacation accrual at any time.

Long-Term Debt

Note Payable

The District has a note payable with the California Department of Water Resources which was used for construction of the treated water transmission system. The original loan amount was \$1,382,000. Payments of \$38,628.95 are due semi-annually on April 1 and October 1 including interest at 3.3712% per annum. The loan is secured by parcel assessments and from any other sources available should the assessments not cover the required payments. This loan was fully paid off during the 2019/20 fiscal year.

Note Payable-West America Bank.

The District entered into a note payable with the West America Bank which was used for purchasing three utility trucks. The original loan amount was \$125,025. Payments of \$27,691 are due annually on December 21 including interest at 3.5% per annum. Future annual payments to amortize the note payable as of June 30, 2020 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 24,131	\$ 3,560	\$ 27,691
2022	24,975	2,716	27,691
2023	25,850	1,841	27,691
2024	26,754	937	27,691
Totals	<u>\$ 101,710</u>	<u>\$ 9,054</u>	<u>\$ 110,764</u>

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 4: Long-Term Liabilities (Continued)

State Revolving Fund Loan

The District has a Safe Drinking Water State Revolving Fund Loan with the California Department of Public Health which was used for construction of the treated water tank and improvements at the existing tank site. The loan commitment is for \$892,400 of which \$874,057 was advanced. The future semi-annually payment of principle and interest at 2.304% per annum is required over 20 years. Future annual payments to amortize the SRF Loan as of June 30, 2020 are as follows:

Fiscal Year	Principal	Interest	Total
<u>June 30,</u>			
2021	\$ 39,987	\$ 14,800	\$ 54,787
2022	40,913	13,874	54,787
2023	41,861	12,926	54,787
2024	42,831	11,956	54,787
2025	43,823	10,964	54,787
Thereafter	443,022	50,043	493,066
Totals	<u>\$ 652,438</u>	<u>\$ 114,563</u>	<u>\$ 767,001</u>

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan

A. General Information about the Pension Plans

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

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is 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 Plans’ provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous	
	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire date		
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55-60	52 - 67
Monthly benefits , as a % of eligible compensation	1.5% to 2.0%	1.0% to 2.0%
Required employee contribution rates	7.00%	7.50%
Required employer contribution rates	9.463%	7.528%

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

Contributions – 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 the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2020, the contributions recognized as part of pension expense were as follows:

Contributions-employer	\$	27,691
------------------------	----	--------

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2020, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

		<u>Proportionate share of Net pension liability</u>
Miscellaneous Plan	\$	79,284

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 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 as of reporting dates June 30, 2019 and 2020 was as follows:

Proportion - June 30, 2019	0.00191%
Proportion - June 30, 2020	0.00198%
Change - Increase (Decrease)	0.00007%

For the year ended June 30, 2020, the District recognized pension expense of \$20,552. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,080	\$ -
Changes of assumptions	2,440	
Net difference between projected and actual earnings on pension plan investments		(1,387)
Changes in proportion	956	
Changes in proportionate share of contributions	20,544	
District contributions subsequent to the measurement date	27,691	
Total	\$ 56,711	\$ (1,387)

\$27,691 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period

Ended June 30:

2021	\$	(17,933)
2022		(5,566)
2023		(3,855)
2024		(279)
2025		-

Thereafter

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.15%

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. 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 percent discount rate is adequate and the use of the

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). 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.

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 rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%

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

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

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 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:

	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Miscellaneous Plan	\$ 127,174	\$ 79,284	\$ 39,752

MIDWAY HEIGHTS COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 6: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District's ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 7: 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; injuries to employees; and natural disasters. The District joined together with other agencies in the State to form ACWA Joint Powers Insurance Authority (JPIA), a public entity risk pool currently operating as a common risk management and insurance program for member agencies. The District pays an annual premium to JPIA for its insurance coverage. The Agreement for Formation of the JPIA provides that JPIA will be self-sustaining through member premiums and will reinsure through commercial companies for general and automobile liability and workers' compensation coverage.

Note 8: Commitments and Contingent Liabilities

Contingent Liabilities

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

Amounts received or receivable from grant and lending agencies are subject to audit and adjustment by grantor and lending agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor or lender cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

COVID 19

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of Midway Heights County Water District could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The District has not included any contingencies in the financial statements specific to this issue.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2020**

<u>Reporting Date</u>	<u>District's proportion of the net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
6/30/2015	0.00224%	\$55,325	\$141,656	39.06%	55.84%
6/30/2016	0.00202%	\$55,370	\$173,896	31.84%	69.64%
6/30/2017	0.00187%	\$64,884	\$193,677	33.50%	73.68%
6/30/2018	0.00196%	\$77,269	\$211,308	36.57%	72.63%
6/30/2019	0.00191%	\$71,928	\$202,405	35.54%	77.11%
6/30/2020	0.00198%	\$79,283	\$207,848	38.14%	77.26%

* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

MIDWAY HEIGHTS COUNTY WATER DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
JUNE 30, 2020**

<u>Reporting Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
6/30/2015	\$18,606	(\$18,606)	\$0	\$141,656	13.13%
6/30/2016	\$18,357	(\$18,357)	\$0	\$173,896	10.56%
6/30/2017	\$20,507	(\$20,507)	\$0	\$193,677	10.59%
6/30/2018	\$21,698	(\$21,698)	\$0	\$211,308	10.27%
6/30/2019	\$24,274	(\$24,274)	\$0	\$202,405	11.99%
6/30/2020	\$27,691	(\$27,691)	\$0	\$207,848	13.32%

* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.