

PICO WATER DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019



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**PICO WATER DISTRICT
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2019**

| | |
|--|-----------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 |
| BASIC FINANCIAL STATEMENTS | |
| STATEMENT OF NET POSITION | 9 |
| STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION | 10 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 13 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM | 35 |
| SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM | 36 |
| SCHEDULE OF CHANGES IN NET OPEB LIABILITY – OTHER POSTEMPLOYMENT BENEFITS OBLIGATION | 37 |
| SCHEDULE OF DISTRICT'S CONTRIBUTION – OTHER POSTEMPLOYMENT BENEFITS OBLIGATION | 38 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | 39 |
| SUPPLEMENTARY INFORMATION | |
| SCHEDULE OF OPERATING REVENUES | 40 |
| SCHEDULE OF OPERATING EXPENSES | 41 |
| INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 42 |



INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
Pico Rivera, California

Report on the Financial Statements

We have audited the accompanying financial statements of Pico Water District (the District) as of and for the year ended December 31, 2019, and the related notes to the basic financial statements, which collectively comprise the entity'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 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pico Water District as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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.

Board of Directors
Pico Water District

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Glendora, California
September 25, 2020

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on December 31, 2019. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$377,120. Operating revenue decreased by \$49,979 or 1% as compared to 2018, which was due to customers conserving more, and a decrease in water rights leasing. Operating expenses including depreciation increased 4% is primarily due to increase in depreciation expense of \$163,089. In addition, in 2018, the District implemented GASB Statement No. 75. The beginning net position decreased by \$344,469 to recognize the beginning balance of the net OPEB liability of \$1,031,918.
- Nonoperating revenues increased \$51,997 due to increased investment revenue from the investment in CDs and State Local Agency Investment Fund.
- The combined effect of these significant issues resulted in an overall increase in the District's net position for 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 9. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Change in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position - the difference between assets, liabilities and deferred outflows and inflows of resources - as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

NET POSITION

To begin our analysis, a summary of the District's Statements of Net Position are presented in Table 1.

**TABLE 1
Condensed Statements of Net Position**

| | Year 2019 | Year 2018 | Dollar Change |
|------------------------------------|----------------------|----------------------|-------------------|
| Assets: | | | |
| Current and Other Assets | \$ 7,419,474 | \$ 9,352,337 | \$ (1,932,863) |
| Capital Assets | 14,779,042 | 12,153,240 | 2,625,802 |
| Total Assets | <u>22,198,516</u> | <u>21,505,577</u> | 692,939 |
| Deferred Outflows of Resources: | | | |
| Deferred Amount Pension Obligation | 174,596 | 243,924 | (69,328) |
| Deferred Amount OPEB Obligation | 51,930 | 66,422 | (14,492) |
| Total Deferred Outflows | <u>226,526</u> | <u>310,346</u> | (83,820) |
| Liabilities: | | | |
| Current Liabilities | 1,752,929 | 1,345,068 | 407,861 |
| Noncurrent Liabilities | 8,180,154 | 8,474,795 | (294,641) |
| Total Liabilities | <u>9,933,083</u> | <u>9,819,863</u> | 113,220 |
| Deferred Inflows of Resources: | | | |
| Deferred Amount Pension Obligation | 231,243 | 302,477 | (71,234) |
| Deferred Amount OPEB Obligation | 190,013 | - | 190,013 |
| Total Deferred Inflows | <u>421,256</u> | <u>302,477</u> | 118,779 |
| Net Position: | | | |
| Net Investment in Capital Assets | 9,665,855 | 9,310,235 | 355,620 |
| Unrestricted | 2,404,848 | 2,383,348 | 21,500 |
| Total Net Position | <u>\$ 12,070,703</u> | <u>\$ 11,693,583</u> | <u>\$ 377,120</u> |

As can be seen in Table 1, the District's net position increased by \$377,120 from fiscal year 2018 to 2019. The net position increase of \$377,120 consists of an increase of \$355,620 in investment in capital assets, and \$21,500 in unrestricted net position.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

NET POSITION (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses, and Change in Net Position

| | Year 2019 | Year 2018 | Dollar Change |
|---|----------------------|----------------------|-------------------|
| Revenues | | | |
| Operating Revenues | \$ 4,173,590 | \$ 4,223,569 | \$ (49,979) |
| Nonoperating Revenues | 224,171 | 172,174 | 51,997 |
| Total Revenues | <u>4,397,761</u> | <u>4,395,743</u> | <u>2,018</u> |
| Expenses | | | |
| Depreciation Expense | 671,299 | 508,210 | 163,089 |
| Other Operating Expenses | 3,327,612 | 3,349,562 | (21,950) |
| Nonoperating Expense | 21,730 | 21,222 | 508 |
| Total Expenses | <u>4,020,641</u> | <u>3,878,994</u> | <u>141,647</u> |
| Net Position before Capital Contributions | 377,120 | 516,749 | (139,629) |
| Other Contributions | <u>-</u> | <u>48,022</u> | <u>(48,022)</u> |
| Change in Net Position | 377,120 | 564,771 | (187,651) |
| Net Position - Beginning of Year | 11,693,583 | 11,463,281 | 230,302 |
| Cumulative Effect of Change in Accounting Principal | <u>-</u> | <u>(334,469)</u> | <u>334,469</u> |
| Net Position - End of Fiscal Year | <u>\$ 12,070,703</u> | <u>\$ 11,693,583</u> | <u>\$ 377,120</u> |

A closer examination of the source of changes in net position reveals that the District's total revenues increased by \$2,018 between 2019 and 2018. This is a combination of operating revenue decreasing by \$49,979, which was due to customers conserving more, and a decrease in water rights leasing. Nonoperating revenues increased \$51,997 due to increased investment revenue from the investment in CDs and State Local Agency Investment Fund.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

BUDGETARY HIGHLIGHTS

TABLE 3

2019 Actual vs. 2019 Budget

| | 2019 Actual | 2019 Budget | Variance |
|-------------------------------|-------------------|------------------|-------------------|
| Revenues | | | |
| Operating Revenues | \$ 4,173,590 | \$ 3,877,478 | \$ 296,112 |
| Nonoperating Revenues | 224,171 | 37,350 | 186,821 |
| Total Revenues | <u>4,397,761</u> | <u>3,914,828</u> | <u>482,933</u> |
| Expenses | | | |
| Operating Expenses: | | | |
| Source of Supply | 1,053,421 | 986,000 | 67,421 |
| Pumping | 407,306 | 388,400 | 18,906 |
| Water Treatment | 96,520 | 80,000 | 16,520 |
| Transmission and Distribution | 229,817 | 174,150 | 55,667 |
| Customer Service | 199,295 | 206,400 | (7,105) |
| Depreciation | 671,299 | 525,000 | 146,299 |
| General and Administrative | 1,341,253 | 1,250,793 | 90,460 |
| Total Operating expenses | <u>3,998,911</u> | <u>3,610,743</u> | <u>388,168</u> |
| Nonoperating Expenses | <u>21,730</u> | <u>279,112</u> | <u>(257,382)</u> |
| Total Expenses | <u>4,020,641</u> | <u>3,889,855</u> | <u>130,786</u> |
| Change in Net Position | <u>\$ 377,120</u> | <u>\$ 24,973</u> | <u>\$ 352,147</u> |

As Table 3 shows, actual change in net position is greater than the budgeted change in net position by \$352,147. The difference is primarily due to the \$296,112 increase in operating revenues that were not anticipated per the budget along with increase in nonoperating revenues of \$186,821 from a budgeted amount of \$37,350 to an actual amount of \$224,171.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION CAPITAL ASSETS

At December 31, 2019, the District's investments in a broad range of infrastructure, as shown in Table 4, totaled \$14,779,042.

**TABLE 4
Capital Assets**

| | Balance at January 1, 2019 | Additions | Deletions and Transfers | Balance at December 31, 2019 |
|--|----------------------------------|---------------------|----------------------------|------------------------------------|
| Capital Assets: | | | | |
| Nondepreciable Assets | \$ 4,338,097 | \$ 3,320,858 | \$ (3,601,270) | \$ 4,057,685 |
| Depreciable Assets | 18,704,181 | 3,577,513 | (372,724) | 21,908,970 |
| Accumulated Depreciation and Amortization | (10,889,038) | (671,299) | 372,724 | (11,187,613) |
| Total Capital Assets, Net | <u>\$ 12,153,240</u> | <u>\$ 6,227,072</u> | <u>\$ (3,601,270)</u> | <u>\$ 14,779,042</u> |

The major capital asset additions for the year ended December 31, 2019 included:

- Durfee Avenue Replacement Mainline Project - \$740,696.48;
- Whittier Blvd Replacement Mainline Project - \$1,907,918.46;
- Catherine & Lindsey Replacement Mainline Project - \$418,812.94;
- Replaced Computer Server - \$14,817.68;
- Replaced Harris-Inhance Billing System with Tyler Utility - \$154,740.54;

Additional information regarding capital assets can be found in Note 3 to the financial statements.

DEBT ADMINISTRATION

At year-end, the District had outstanding debt in the amount of \$6,844,239 consisting of two infrastructure loans from IBank. This is more fully discussed in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management will consider many factors when setting the 2020 budget including user fees, potential water sales, water usage patterns, and increases by regulatory agencies, utilities and staffing requirements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Mr. Mark Grajeda at Pico Water District.

**PICO WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

CURRENT ASSETS

| | |
|------------------------------------|------------------|
| Cash and Cash Equivalents | \$ 4,106,769 |
| Cash Held by Fiduciary | 2,328,563 |
| Accounts Receivable | 590,087 |
| Accrued Interest Receivable | 15,669 |
| Other Receivables | 211,401 |
| Inventory of Material and Supplies | 101,852 |
| Prepaid Expenses and Deposits | 65,133 |
| Total Current Assets | <u>7,419,474</u> |

NONCURRENT ASSETS

| | |
|---------------------------------------|-------------------|
| Capital Assets Not Being Depreciated | 4,057,685 |
| Capital Assets Being Depreciated, Net | 10,721,357 |
| Total Noncurrent Assets | <u>14,779,042</u> |

Total Assets 22,198,516

DEFERRED OUTFLOWS OF RESOURCES

| | |
|------------------------------------|----------------|
| Deferred Amount Pension Obligation | 174,596 |
| Deferred Amount OPEB Obligation | 51,930 |
| Total Deferred Outflows | <u>226,526</u> |

CURRENT LIABILITIES

| | |
|--|------------------|
| Accounts Payable | 938,216 |
| Accrued Expenses | 67,874 |
| Accrued Interest Payable | 104,508 |
| Compensated Absences Payable - Current Portion | 24,398 |
| Note Payable - Current Portion | 152,520 |
| Refundable Deposits | 465,413 |
| Total Current Liabilities | <u>1,752,929</u> |

NONCURRENT LIABILITIES

| | |
|--|------------------|
| Compensated Absences, Net of Current Portion | 138,258 |
| Note Payable, Net of Current portion | 6,691,719 |
| Net Pension Liability | 547,362 |
| Net Other Postemployment Benefits Obligation | 802,815 |
| Total Noncurrent Liabilities | <u>8,180,154</u> |

Total Liabilities 9,933,083

DEFERRED INFLOWS OF RESOURCES

| | |
|------------------------------------|----------------|
| Deferred Amount Pension Obligation | 231,243 |
| Deferred Amount OPEB Obligation | 190,013 |
| Total Deferred Inflows | <u>421,256</u> |

NET POSITION

| | |
|----------------------------------|----------------------|
| Net Investment in Capital Assets | 9,665,855 |
| Unrestricted | 2,404,848 |
| Total Net Position | <u>\$ 12,070,703</u> |

See accompanying Notes to Financial Statements.

**PICO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEAR ENDED DECEMBER 31, 2019**

OPERATING REVENUES

| | |
|--------------------------|--------------|
| Water Sales | \$ 3,444,577 |
| Water Services | 729,013 |
| Total Operating Revenues | 4,173,590 |

OPERATING EXPENSES

| | |
|-------------------------------|-----------|
| Source of Supply | 1,053,421 |
| Pumping | 407,306 |
| Water Treatment | 96,520 |
| Transmission and Distribution | 229,817 |
| Customer Service | 199,295 |
| Depreciation | 671,299 |
| General and Administrative | 1,341,253 |
| Total Operating Expenses | 3,998,911 |

| | |
|------------------|---------|
| Operating Income | 174,679 |
|------------------|---------|

NONOPERATING REVENUES (EXPENSES)

| | |
|---------------------------|---------|
| Investment Earnings | 182,106 |
| Rental Income | 20,200 |
| Other Revenues (Expenses) | 135 |
| Total Nonoperating Income | 202,441 |

CHANGE IN NET POSITION

377,120

| | |
|----------------------------------|------------|
| Net Position - Beginning of Year | 11,693,583 |
|----------------------------------|------------|

NET POSITION - END OF YEAR

\$ 12,070,703

**PICO WATER DISTRICT
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------|
| Cash Receipts from Water Sales and Services | \$ 4,142,462 |
| Payments for Salaries and Benefits | (1,440,364) |
| Payments for Materials and Services | (1,821,682) |
| Net Cash Provided by Operating Activities | 880,416 |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------|
| Other Nonoperating Revenue (Expense) | 21,865 |
| Net Cash Provided by Noncapital and Financing Activities | 21,865 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|-------------|
| Payments of Principal and Interest on Loan | (368,793) |
| Acquisition and Construction of Capital Assets | (2,656,644) |
| Net Cash Used by Capital and Related Financing Activities | (3,025,437) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|---------|
| Proceeds from Rental Property | 19,260 |
| Interest and Investment Earnings Received | 127,555 |
| Net Cash Provided by Investing Activities | 146,815 |

NET DECREASE IN CASH AND CASH EQUIVALENTS (1,976,341)

Cash and Cash Equivalents - Beginning of Year 8,411,673

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 6,435,332

| | |
|---|--------------|
| Cash and Cash Equivalents | \$ 4,106,769 |
| Cash Held by Fiduciary | 2,328,563 |
| Cash and Cash Equivalents - End of Year | \$ 6,435,332 |

SUPPLEMENTARY DISCLOSURE OF NONCASH ITEM

| | |
|----------------------|------------|
| Capitalized Interest | \$ 254,447 |
|----------------------|------------|

**PICO WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

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

| | | |
|---|----|-----------------------|
| Operating Income | \$ | 174,679 |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Depreciation Expense | | 671,299 |
| (Increase) Decrease in Assets and Deferred Outflows of Resources: | | |
| Accounts Receivable - Water Sales and Services | | (53,825) |
| Accounts Receivable - Other | | (1,200) |
| Materials and Supplies Inventory | | 2,494 |
| Prepaid Expenses | | 7,442 |
| Deferred Outflows of Pension Obligation | | 69,328 |
| Deferred Outflows of OPEB Obligation | | 14,492 |
| Increase (Decrease) in Liabilities and Deferred Inflows of Resources: | | |
| Accounts Payable and Accrued Expenses - Operations | | 1,721 |
| Accrued Expenses | | (143) |
| Compensated Absences | | (34,840) |
| Deposits Payable | | 22,697 |
| Net Other Postemployment Benefits Obligation | | (227,932) |
| Net Pension Liability | | 115,425 |
| Deferred Inflows of Pension | | (71,234) |
| Deferred Inflows of OPEB Obligation | | 190,013 |
| Total Adjustments | | <u>705,737</u> |
| Net Cash Provided by Operating Activities | \$ | <u><u>880,416</u></u> |

See accompanying Notes to Financial Statements.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Pico Water District (the District) was formed June 22, 1926, pursuant to the provisions of the state of California. The District currently encompasses 1,536 acres and operates six wells, four of which are in use and two of which are inactive, and a 1.25 million gallon reservoir. The purpose of the District is to finance, construct, operate, and maintain a water system to serve properties within the District's boundaries.

Basis of Presentation

The District's activities are accounted for in an enterprise fund. An enterprise fund is a proprietary-type fund used to account for operations that are 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 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.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the statement of net position. The statement of revenues, expenses, and change in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

New Accounting Pronouncements

GASB issued several pronouncements that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the year 2020.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 86, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement is effective for the year 2022.

Governmental Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement is effective for the year 2021.

Governmental Accounting Standards Board Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100% equity interest is acquired in that component unit. The statement is effective for the year 2020.

Governmental Accounting Standards Board Statement No. 91

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The objective of the statement is to eliminate diversity in practice associated with commitments extended by issuer, arrangements associated with conduit obligations and related note disclosures. The statement clarifies the existing definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the user, and establishing standards for accounting and financial reporting. The statement is effective for the year 2022.

Governmental Accounting Standards Board Statement No. 92

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of the statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics. Some requirements are effective upon issuance of the statement and other requirements are effective for the year 2022.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 93

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (ICOR)*. This statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The statement is effective for the year 2022.

Governmental Accounting Standards Board Statement No. 94

In March 2020, GASB issued Statement No. 94, *Public-Private & Public-Public Partnerships and Availability Payment Arrangements*. This statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The statement is effective for the year 2023.

Governmental Accounting Standards Board Statement No. 96

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The statement is effective for the year 2023.

Governmental Accounting Standards Board Statement No. 97

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Statement (1) increases consistency and comparability related to the reporting of fiduciary component if a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for IRC Section 457 deferred compensation plans. The statement is effective for the year 2022.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as cash and short-term investments, which have a maturity of three months or less. At December 31, 2019, the District invested with the State Treasurer's Local Agency Investment Fund (LAIF). This is a pooled money investment account and is considered to be a cash equivalent.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The District grants unsecured credit to its customers. Bad debts are accounted for using the direct write off method. Management believes that the bad debt expense under this method approximates the expense that would be recorded using the allowance method.

Inventory

Inventories maintained by the District consist primarily of pipes, construction materials, and maintenance supplies. Inventories are priced at the lower of cost or market, determined on a first-in, first-out basis.

Capital Assets and Depreciation

Capital assets are stated at historical cost, net of accumulated depreciation. In accordance with its capitalization policy, the District has set the capitalization threshold for reporting capital assets at \$5,000 and a useful life that is more than one year. Depreciation is recorded on the straight-line basis over the estimated useful lives.

The ranges of lives used for computing depreciation for each capital asset class are as follows:

| | |
|--------------------------------|----------------|
| Wells and Reservoirs | 20 to 50 Years |
| Wells and Reservoirs Equipment | 5 to 10 Years |
| Pumps and Tanks | 20 to 25 Years |
| Water Treatment Equipment | 5 to 10 Years |
| Transmission and Distribution | 15 to 50 Years |
| General Plant and Other | 5 to 25 Years |

Maintenance and repairs are charged as expenses as incurred. Significant renewals and betterments are capitalized.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

Pension Plan

Deferred outflows of resources represent a consumption of net position that applies to a future period. The deferred outflows of resources resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans and the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 6 to the financial statements.

Other Postemployment Benefits (OPEB) Other than Pensions

The District recorded deferred outflows of resources related to its OPEB obligation that resulted from District contributions to the plan subsequent to the measurement date of the actuarial valuation and the effects of actuarially-determined changes to the OPEB plan. These amounts are deferred and amortized as detailed in Note 7 to the financial statements.

Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees, in accordance with the District policy.

Net Pension Obligation

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 addition to/deduction 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.

Postemployment Benefits Other than Pension (OPEB)

The District participates in a single employer defined benefit postemployment healthcare plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and OPEB expense information about the fiduciary net position of the District Retiree Benefits Plan (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of resources applicable to future periods. The deferred inflows of resources related to pensions and OPEB results from the difference between the estimated and actual return on pension plan investments, the effect of changes in proportion and changes in assumptions, and the difference between expected and actual experience. These amounts are deferred and amortized as detailed in Note 6 for pensions and Note 7 for OPEB to the financial statements.

Net Position

Net position of the District can be classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and 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 are not included in the calculation of net investment in capital assets. 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 placed on net position use through external 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. As of December 31, 2019, the District did not have restricted net position.

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

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

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

Operating revenues, such as water sales and services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment income and rental income, result from non-exchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

Revenue Recognition

Revenue is recognized and accounts receivable recorded as water services are provided. This includes estimated charges for water services delivered prior to year-end and billed during a subsequent billing cycle.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and investments at December 31, 2019 are shown below:

| | |
|---|----------------------------|
| Cash on Hand | \$ 700 |
| Deposits Held with Financial Institutions | 1,490,009 |
| Investments in Local Agency Investment Fund | <u>2,616,060</u> |
| Total Cash and Cash Equivalents on Hand and in Institutions | 4,106,769 |
| Held by Fiscal Agent | <u>2,328,563</u> |
| Total Cash and Cash Equivalents | <u><u>\$ 6,435,332</u></u> |

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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

The table below identifies the investment types that are authorized for the 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. The 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's investment policy.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---|-------------------------|--|---|
| U.S. Treasury Obligations | 5 Years | None | None |
| U.S. Government Sponsored Agency Securities | 5 Years | None | None |
| State of California Obligations | 5 Years | None | None |
| California Warrants, Notes or Bonds | 5 Years | None | None |
| Negotiable Certificates of Deposit | 5 Years | 30% | None |
| CD Placement Services | 5 Years | 30% | None |
| Banker's Acceptance | 180 Days | 40% | 30% |
| Repurchase Agreements | 1 Year | 20% | None |
| Commercial Paper | 270 Days | 25% | 10% |
| Medium-Term Notes | 5 Years | 30% | None |
| LAIF | N/A | None | None |
| County Pooled Investment Funds | N/A | None | None |
| Joint Powers Authority Pool | N/A | None | None |
| Mutual Funds and Money Market Mutual Funds | 5 Years | 20% | 10% |

Concentration of Credit Risk

The District follows the investment policy as stipulated by the California Government Code as to the amount it may invest in any one issuer. At December 31, 2019, the District had no concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. At December 31, 2019, District had no investment that subject to interest rate risk.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in LAIF are not rated.

Custodial Credit Risk

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not subject to categorization to indicate the level of custodial risk assumed by the District at year-end.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District's investments mature over time, generally consistent with its cash flow and liquidity needs.

Maturities of investments at December 31, 2019 are as shown herein.

| Investment Type | Totals | <u>Remaining Maturity</u> 12 Months Or Less |
|-------------------------------------|---------------------|---|
| Local Agency Investment Fund (LAIF) | \$ 2,616,060 | \$ 2,616,060 |
| Total | <u>\$ 2,616,060</u> | <u>\$ 2,616,060</u> |

NOTE 3 CAPITAL ASSETS

Changes in capital assets at December 31, 2019 are shown below:

| | Balance at January 1, 2019 | Additions | Transfers/ Deletions | Balance at December 31, 2019 |
|--|----------------------------------|---------------------|-------------------------|------------------------------------|
| Nondepreciable Assets: | | | | |
| Land and Easements | \$ 382,175 | \$ - | \$ - | \$ 382,175 |
| Water Rights | 216,000 | - | - | 216,000 |
| Construction in Progress | 3,739,922 | 3,320,858 | (3,601,270) | 3,459,510 |
| Total Capital Assets, Not Being Depreciated | 4,338,097 | 3,320,858 | (3,601,270) | 4,057,685 |
| Depreciable Assets: | | | | |
| Wells and Reservoirs | 3,011,756 | 160,269 | (43,986) | 3,128,039 |
| Pumps and Tanks | 741,474 | - | (23,485) | 717,989 |
| Water Treatment Equipment | 47,678 | - | (1,066) | 46,612 |
| Transmission and Distributions | 12,697,953 | 3,202,180 | (293,835) | 15,606,298 |
| General Plant | 2,049,508 | 215,064 | (10,352) | 2,254,220 |
| Rental House | 119,029 | - | - | 119,029 |
| SCADA System and Equipment | 36,783 | - | - | 36,783 |
| Total Depreciable Assets | 18,704,181 | 3,577,513 | (372,724) | 21,908,970 |
| Less Accumulated Depreciation | (10,889,038) | (671,299) | 372,724 | (11,187,613) |
| Total Capital Assets, Being Depreciated | 7,815,143 | 2,906,214 | - | 10,721,357 |
| Total Capital Assets, Net | <u>\$ 12,153,240</u> | <u>\$ 6,227,072</u> | <u>\$ (3,601,270)</u> | <u>\$ 14,779,042</u> |

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 RISK MANAGEMENT

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At December 31, 2019, the District participated in the self-insurance programs of the Insurance Authority as discussed below.

Property Loss – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage of \$500,000,000 (total insurable value of \$3,929,872). The District has a \$1,000 deductible for buildings, personal property, fixed and mobile equipment and licensed vehicles.

General Liability – The District is insured up to \$55,000,000 with no deductible. The Insurance Authority has pooled self-insurance of \$5,000,000 per occurrence and has purchased excess insurance coverage of \$50,000,000.

Auto Liability – The District is insured up to \$55,000,000 with no deductible. The Insurance Authority has pooled self-insurance of \$5,000,000 per occurrence and has purchased excess insurance coverage of \$50,000,000.

Workers' Compensation – Workers' compensation coverage is up to statutory limits and employer's liability is insured up to \$4,000,000. The Insurance Authority has pooled self-insurance of \$2,000,000 per occurrence and has purchased excess insurance coverage of \$2,000,000.

Public Officials' Liability – The District has coverage for errors and omissions for up to \$55,000,000. The Insurance Authority has pooled self-insurance of \$5,000,000 per occurrence and has purchased excess insurance coverage of \$50,000,000.

Employee Dishonesty/Crime Coverage – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Earthquake and Flood – The District is insured up to \$25,000,000. The earthquake deductible is 5% of the total insurable values (\$3,379,311) at the time of loss, subject to a \$25,000 minimum per occurrence. The flood deductible is \$25,000 per occurrence.

The District pays annual premiums for the coverages. There were no instances in the past three years when a settlement exceeded the District's coverage.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 NOTES PAYABLE

As of December 31, 2019, the District had entered into two Installment Sale Agreements with California Infrastructure and Economic Development Bank in the amounts of \$2,020,200 and \$5,250,000, respectively. The proceeds of the loans are held by a fiscal agent and are released as infrastructure expenditures are incurred. The loans bear interest at 3.84% per annum. Principal payments commenced in August 2017 and are due annually. Interest payments commenced February 2017 and are payable biannually. The total future debt obligations under these agreements are as shown below.

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|---------------------|
| 2020 | \$ 152,520 | \$ 251,645 |
| 2021 | 158,112 | 246,053 |
| 2022 | 163,910 | 240,255 |
| 2023 | 169,922 | 234,243 |
| 2024 | 176,155 | 228,009 |
| 2025-2029 | 982,635 | 1,038,191 |
| 2030-2034 | 1,176,829 | 843,997 |
| 2035-2039 | 1,409,631 | 611,195 |
| 2040-2044 | 1,688,761 | 332,065 |
| 2045-2046 | 765,764 | 42,569 |
| Total Future Debt Service | <u>\$ 6,844,239</u> | <u>\$ 4,068,222</u> |

The schedule below summarizes changes in long-term debt during the year ended December 31, 2019:

| | <u>Balance at January 1, 2019</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at December 31, 2019</u> | <u>Amount Due In One Year</u> |
|---------------------------|---|------------------|-------------------|---|---------------------------------------|
| Direct Borrowing: | | | | | |
| California Infrastructure | \$ 5,054,033 | \$ - | \$ 103,663 | \$ 4,950,370 | \$ 107,643 |
| Economic Development Bank | 1,937,333 | - | 43,464 | 1,893,869 | 44,877 |
| Total | <u>\$ 6,991,366</u> | <u>\$ -</u> | <u>\$ 147,127</u> | <u>\$ 6,844,239</u> | <u>\$ 152,520</u> |

For the year ended December 31, 2019, the District capitalized \$254,447 of interest expense, which were the actual borrowing costs incurred.

NOTE 6 PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CALPERS)

The District participates in a cost sharing multiple-employer defined benefit plan through the California Public Employees’ Retirement System (CalPERS) which covers substantially all regular full-time employees of the District. CalPERS acts as a common investment and administrative agent for participating public entities within the state of California and reports information to the District in accordance with reporting standards established by GASB.

The District has implemented all applicable GASB statements related to the area of pension plans and as a result, reported its proportionate share of the net pension liability, pension expense, deferred outflows of resources, and deferred inflow of resources for the above plan as shown in the table below:

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**NOTE 6 PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
(CALPERS) (CONTINUED)**

| <u>Pension Plan</u> | <u>Proportionate Share of Net Pension Liability</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Proportionate Share of Pension Expense</u> |
|---------------------|---|---|--|---|
| CalPERS | <u>\$ 547,362</u> | <u>\$ 174,596</u> | <u>\$ 231,243</u> | <u>\$ 120,924</u> |

Plan Description

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under the CalPERS plan, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan is comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. Individual employers may sponsor more than one Miscellaneous or Safety plan. The District sponsors one Miscellaneous Risk pool plan and the information presented below represents the allocated pension amounts for the District’s plan (the Plan). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees’ Retirement Law.

Plan Provided

The Plan 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 year of service credit, a benefit factor, and the member’s final compensation. Members hired by the district, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for employment-related disability benefits regardless of length of service and non-duty disability benefits after four years of service. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The Post-Retirement Death Benefit is a one-time payment made to a retiree’s designated survivor or estate upon the retiree’s death. The Basic Death Benefit is paid to any member’s beneficiary if the member dies while actively employed. An employee’s eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service.

The cost of living adjustments for the Plan are applied as specified by the Public Employees’ Retirement Law.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**NOTE 6 PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
(CALPERS) (CONTINUED)**

The Plan provisions and benefits in effect at December 31, 2019, are shown below:

| | Miscellaneous Risk Pool | |
|--------------------------------------|-------------------------|--------------------|
| | Classic | PEPRA |
| | On or Before | On or After |
| Hire Date | December 31, 2012 | January 1, 2013 |
| Benefit Formula | 2% at 55 | 2% at 62 |
| Benefit Vesting Schedule | 5 Years of Service | 5 Years of Service |
| Benefit Payments | Monthly for Life | Monthly for Life |
| Retirement Age | 55 | 62 |
| Required Employee Contribution Rates | 7.00% | 6.25% |
| Required Employer Contribution Rates | 10.441% | 7.383% |

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined annually through the CalPERS annual actuarial valuation process. 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. The contributions rates are expressed as percentage of annual payroll. The contribution rates for the fiscal year ended December 31, 2019 are presented above and the total District required contributions to the Plan were \$120,230.

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

As of December 31, 2019, the District reported net pension liability for its proportionate share of the Miscellaneous Risk Pool net pension liability totaling \$547,362. As permitted by GASB standards, the net pension liability was determined based upon the measurement date of June 30, 2019. 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 plan relative to the projected contributions of all participating employers, actuarially determined.

The District’s proportionate share of the pension liability for the District’s Plan as of the December 31, 2019 and 2018, was as followings:

| | Miscellaneous Plan |
|--------------------------------|--------------------|
| Proportion - December 31, 2019 | 0.013669% |
| Proportion - December 31, 2018 | 0.011461% |
| | <u>0.002208%</u> |

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**NOTE 6 PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
(CALPERS) (CONTINUED)**

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

For the year ended December 31, 2019, the District recognized pension expense of \$120,924. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Pension Contribution Subsequent to Measurement Date | \$ 55,622 | \$ - |
| Change in Assumptions | 26,101 | 9,253 |
| Differences between Expected and Actual Experience | 38,017 | 2,945 |
| Differences between Projected and Actual Earnings on Plan Investments | - | 9,570 |
| Adjustments Due to Difference in Proportion | 54,856 | 56,131 |
| Difference in Proportionate Share of Contributions | - | 153,344 |
| Total | \$ 174,596 | \$ 231,243 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. The net difference between projected and actual earnings on plan investment is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expenses during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for CalPERS Miscellaneous Risk Pool Plan for the June 30, 2019 measurement date is 3.8 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining period not to exceed 2.8 years.

Remaining amounts will be recognized to pension expense as follows:

| <u>Year Ending December 31,</u> | <u>Amortization</u> |
|---------------------------------|---------------------|
| 2020 | \$ 40,276 |
| 2021 | (93,642) |
| 2022 | (44,537) |
| 2023 | (14,366) |
| Total | \$ (112,269) |

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**NOTE 6 PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
(CALPERS) (CONTINUED)**

Actuarial Methods and Assumptions

The total pension liability for the Plan was determined by applying update procedures to an actuarial valuation as of June 30, 2018, which was rolled forward to the June 30, 2019 measurement date. As permitted by GASB standards, the District’s net pension liability was determined based upon the measurement date of June 30, 2019.

The financial reporting actuarial valuation as of June 30, 2018 used the methods and assumptions herein, applied to all prior periods included in the measurement.

| | |
|---------------------------|------------------------------------|
| Valuation Date | June 30, 2018 |
| Measurement Date | June 30, 2019 |
| Experience Study | July 1, 1997 through June 30, 2011 |
| Actuarial Cost Method | Entry Age Normal |
| Discount Rate | 7.15% |
| Investment Rate of Return | 7.50% |
| Consumer Price Inflation | 2.50% |
| Wage Growth | Varies by entry age and service |

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

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

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

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**NOTE 6 PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
(CALPERS) (CONTINUED)**

Actuarial Methods and Assumptions (Continued)

| <u>Asset Class</u> | <u>Current Target Allocation</u> | <u>Real Return Years 1-10 (a)</u> | <u>Real Return Years 11+ (b)</u> |
|---------------------|--------------------------------------|---------------------------------------|--------------------------------------|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Global Fixed Income | 28.00% | 1.00% | 2.62% |
| Inflation Sensitive | 0.00% | 0.77% | 1.81% |
| Private Equity | 8.00% | 6.30% | 7.23% |
| Real Estate | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | 0.00% | -0.92% |

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

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

Discount Rate

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

The following presents the District’s proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| | <u>Net Pension Liability (Asset)</u> |
|-------------------------------|--|
| Discount Rate: | |
| 1% Decrease (6.15%) | \$ 1,287,554 |
| Current Discount Rate (7.15%) | 547,362 |
| 1% Increase (8.15%) | (63,614) |

Detailed information about CalPERS Miscellaneous Risk Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

In addition to the pension benefits described in Note 6, the District provides a post-retirement health care benefit for retired employees and directors who have served the District full-time for at least five consecutive years and who are at least 55 years of age at the time of retirement, and spouses. In accordance with statutory requirements, a director must have commenced his or her service on or before January 1, 1995, in order to be entitled to receive District-paid health insurance after completing service on the board.

Funding Policy

The contribution requirements of the plan are set by the District and the District's board of directors. Currently, contributions are not required from plan members. The District has established a trust to fund future other postemployment benefits (OPEB). The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually by the District. The District contributed \$82,000 to the Retiree Benefit Trust for the year ended June 30, 2019 and \$50,131 in employer contributions for the year ended December 31, 2019, including the implicit rate subsidy. The table herein shows the participants as of December 31, 2019.

| Participant Type | Number of Participants |
|---|---------------------------|
| Inactive Participants Currently Receiving Benefits | 3 |
| Inactive Participants Entitled to But Not Yet Receiving Benefit Payments | 0 |
| Active Employees | 10 |
| Total | 13 |

Net OPEB Liability (Asset)

The table below shows the components of the net OPEB liability of the District:

| | |
|--|--------------|
| Total OPEB Liability | \$ 1,398,556 |
| Plan Fiduciary Net Position | 595,741 |
| District's Net OPEB Liability (Asset) | \$ 802,815 |
| Plan Fiduciary Net Position as a Percentage of the total OPEB Liability (Asset) | 42.60% |

Investments

At December 31, 2019, all Plan investments are held in the California Employers' Retiree Benefit Trust program (CERBT) through CalPERS.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

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

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources as follows:

| <u>Deferred Outflows and Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Contributions subsequent to measurement date | \$ 50,131 | \$ - |
| Difference between investment gains and losses | 1,799 | 2,870 |
| Difference between experience gains and losses | - | 187,143 |
| Total | <u>\$ 51,930</u> | <u>\$ 190,013</u> |

The deferred outflow of resources results from a change of assumptions and is amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the OPEB plan for December 31, 2019 is 5 years. The year of amortization is recognized in OPEB expense for the year the gain or loss occurs. The remaining amount is deferred and will be amortized over the remaining periods not to exceed 4 years.

The deferred inflows of resources related to OPEB resulting from the net differences between projected and actual earnings on the plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period.

The deferred inflows of resources related to OPEB resulting from the net differences between projected and actual earnings on the plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period.

Deferred inflows and outflows will be amortized as follow:

| <u>Year Ending June 30,</u> | <u>Amortization</u> |
|-----------------------------|---------------------|
| 2020 | \$ (13,878) |
| 2021 | (13,878) |
| 2022 | (13,882) |
| 2023 | (14,477) |
| 2024 | (13,761) |
| Thereafter | (118,338) |
| Total | <u>\$ (188,214)</u> |

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. Liabilities in this report were calculated as of the valuation date.

The total OPEB liability was determined by using the actuarial assumptions shown herein, applied to all periods included in the measurement, unless otherwise specified.

| | |
|---------------------------|---------------|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2019 |
| Inflation | 2.75% |
| Salary Increases | 2.75% |
| Investment Rate of Return | 6.50% |
| Health Care Trend Rate | 4.00% |

Mortality rates were based on the 2014 rates used by CalPERS.

The long-term expected rate of return on 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Shown herein is the assumed asset allocation and assumed rate of return for each asset class.

| Asset Class: | Percentage of Portfolio | Assumed Gross Return |
|---|----------------------------|-------------------------|
| All Equities | 40% | 7.68% |
| All Fixed Income | 43% | 4.38% |
| Real Estate Investment Trusts | 8% | 7.38% |
| All Commodities | 4% | 7.68% |
| Treasury Inflated Protected Securities (TIPS) | 5% | 3.13% |

The discount rate used to measure the total OPEB liability was 6.5%. It is assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. Historic 34-year real rates of return for each asset class were used, along with an assumed long-term inflation assumption, to set the discount rate. The expected investment return was offset by investment expenses of 25 basis points. Rolling periods of time for all assets, in combination, were reviewed to appropriately reflect the correlation between asset classes. That means that the average returns for any asset class will not necessarily reflect the averages over time individually, but do reflect the return for the asset class for the portfolio average. Geometric means were used.

Since the most recent valuation, there were no changes to the actuarial assumptions.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|--|-------------------------|--------------------------------|-------------------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability (Asset) |
| Balances at June 30, 2018 | \$ 1,507,367 | \$ 476,620 | \$ 1,030,747 |
| Changes for the Year: | | | - |
| Service Cost | 44,430 | - | 44,430 |
| Interest | 97,794 | - | 97,794 |
| Expected investment income | - | 33,642 | (33,642) |
| Employer contributions to Trust | - | 82,000 | (82,000) |
| Employer contributions as Benefit Payments | - | 50,131 | (50,131) |
| Expected Benefit Payments from Employer | (50,131) | (50,131) | - |
| Expected Gains/Losses | (200,904) | - | (200,904) |
| Investment Gains/(losses) | - | 3,588 | (3,588) |
| Administrative Expense | - | (109) | 109 |
| Net Change | <u>(108,811)</u> | <u>119,121</u> | <u>(227,932)</u> |
| Balances at June 30, 2019 | <u>\$ 1,398,556</u> | <u>\$ 595,741</u> | <u>\$ 802,815</u> |

The following presents the District's net OPEB liability calculated using the discount rate of 6.5%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

| | Net OPEB Liability (Asset) |
|-------------------------------|-------------------------------|
| Discount Rate: | |
| 1% Decrease (5.50%) | \$ 1,000,732 |
| Current Discount Rate (6.50%) | 802,815 |
| 1% Increase (7.50%) | 639,056 |

The following presents the District's net OPEB liability calculated using the current healthcare cost trend rate of 4.0%, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0%) or 1-percentage-point higher (5.0%) than the current rate:

| | Net OPEB Liability (Asset) |
|---------------------------------------|-------------------------------|
| Healthcare Trend Rate: | |
| 1% Decrease (3.00%) | \$ 636,617 |
| Current Healthcare Trend Rate (4.00%) | 802,815 |
| 1% Increase (5.00%) | 997,811 |

OPEB Expense

For the year ended December 31, 2019, the District recognized OPEB expense of \$94,813.

**PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 8 COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 9 SUBSEQUENT EVENT

Subsequent to year end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Pico Water District, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to costs for emergency preparedness, disease control and preparedness, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year end and are still developing.

**PICO WATER DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
YEAR ENDED DECEMBER 31, 2019**

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|------------|------------|------------|------------|------------|
| District's proportion of the net pension liability (assets) | 0.030600% | 0.030960% | 0.031280% | 0.030930% | 0.0318836% |
| District's proportionate share of the net pension liability (assets) | \$ 547,362 | \$ 431,937 | \$ 466,342 | \$ 333,859 | \$ 64,847 |
| District's covered payroll reported as of the previous fiscal year to align with the measurement date of the net pension liability | \$ 684,785 | \$ 707,715 | \$ 685,639 | \$ 644,476 | \$ 616,120 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 79.93% | 61.03% | 68.02% | 51.80% | 10.53% |
| Plan fiduciary net position as a percentage of the total pension liability | 90.05% | 91.74% | 90.69% | 92.50% | 98.47% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

Amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

**PICO WATER DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
YEAR ENDED DECEMBER 31, 2019**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 55,622 | \$ 69,561 | \$ 69,915 | \$ 75,888 | \$ 60,692 |
| Contributions in relation to the contractually required contribution | <u>55,622</u> | <u>69,561</u> | <u>69,915</u> | <u>75,888</u> | <u>60,692</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 698,909 | \$ 684,785 | \$ 707,715 | \$ 685,639 | \$ 644,476 |
| Contributions as a percentage of covered payroll | 7.96% | 10.16% | 9.88% | 11.07% | 9.42% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

**PICO WATER DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY –
OTHER POSTEMPLOYMENT BENEFITS OBLIGATION
YEAR ENDED DECEMBER 31, 2019**

| Total OPEB Liability | 2019 | 2018 |
|--|----------------|------------------|
| Service Cost | \$ 44,430 | \$ 43,241 |
| Interest | 97,794 | 92,082 |
| Experience (Gains)/Losses | (200,904) | - |
| Benefit Payments | (50,131) | (45,968) |
| Net Change in Total OPEB Liability | (108,811) | 89,355 |
| Total OPEB Liability - Beginning | 1,507,367 | 1,418,012 |
| Total OPEB Liability - Ending (a) | \$ 1,398,556 | \$ 1,507,367 |
| Plan Fiduciary Net Position | | |
| Contributions - Employer | \$ 132,131 | \$ 112,968 |
| Net Investment Income | 33,642 | 27,250 |
| Investment Gains/Losses | 3,588 | (3,001) |
| Benefit Payments | (50,131) | (45,968) |
| Administrative Expense | (109) | (723) |
| Net Change in Plan Fiduciary Net Position | 119,121 | 90,526 |
| Plan Fiduciary net Position - Beginning | \$ 476,620 | 386,094 |
| Plan Fiduciary Net Position - Ending (b) | \$ 595,741 | \$ 476,620 |
| Net OPEB Liability (Asset) - Ending (a) - (b) | \$ 802,815 | \$ 1,030,747 |
| District's Covered-Employee Payroll | \$ 737,564 | \$ 727,985 |
| Net OPEB Liability (Asset) as a Percentage of Covered Employee Payroll | 108.85% | 141.59% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

**PICO WATER DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTION –
OTHER POSTEMPLOYMENT BENEFITS OBLIGATION
YEAR ENDED DECEMBER 31, 2019**

| | <u>2019</u> | <u>2018</u> |
|---|----------------|----------------|
| Actuarially Determined Contribution (ADC) (1) | \$ 132,131 | \$ 112,968 |
| Contributions in Relation to the ADC | <u>132,131</u> | <u>112,968</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's Covered-Employee Payroll | \$ 737,564 | \$ 727,985 |
| Contributions as a percentage of Covered-Employee Payroll | 17.91% | 15.52% |

(1) The District did not calculate an ADC. The District contributes on a pay as you go method assumed to be an amount sufficient to fully fund the obligation over a period not to exceed 30 years.

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

**PICO WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

NOTE 1 PURPOSE OF SCHEDULES

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

The schedule presents information on the District's proportionate share of the net pension liability, and the plans' fiduciary net position associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Schedule of District's Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

Schedule of Changes in the Net OPEB Liability

The schedule is intended to show the funded status of the District's actuarially determined liability for postemployment benefits other than pensions. In the future, as data becomes available, 10 years of information will be presented.

Schedule of Postemployment Healthcare Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and an excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

**PICO WATER DISTRICT
SCHEDULE OF OPERATING REVENUES
YEAR ENDED DECEMBER 31, 2019**

Water Sales Revenues

| | |
|----------------------------|----------------|
| Residential | \$ 1,889,851 |
| Multi-User | 577,338 |
| Business | 519,926 |
| Other | <u>457,462</u> |
| Total Water Sales Revenues | 3,444,577 |

Water Service Revenues

| | |
|------------------------------|----------------|
| Late Charges | 58,598 |
| Fire Protection | 60,981 |
| Infrastructure Surcharge | 424,926 |
| Other | <u>184,508</u> |
| Total Water Service Revenues | 729,013 |

| | |
|--------------------------|----------------------------|
| Total Operating Revenues | <u><u>\$ 4,173,590</u></u> |
|--------------------------|----------------------------|

**PICO WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2019**

| | |
|--------------------------------------|----------------------------|
| Source of Supply | |
| Ground Water Replenishment | \$ 940,711 |
| Recycled Water | 42,382 |
| Salaries and Wages | 70,328 |
| Total Source of Supply | <u>1,053,421</u> |
| Pumping | |
| Power | 197,941 |
| Maintenance | 32,315 |
| Salaries and Wages | 177,050 |
| Total Pumping | <u>407,306</u> |
| Water Treatment | |
| Water Treatment Regulations | 51,016 |
| Chemicals and Lab Testing | 41,024 |
| Salaries and Wages | 4,480 |
| Total Water Treatment | <u>96,520</u> |
| Transmission and Distribution | |
| Maintenance | 112,814 |
| Vehicle Expenses | 18,255 |
| Salaries and Wages | 98,748 |
| Total Transmission and Distribution | <u>229,817</u> |
| Customer Accounts | |
| Supplies | 47,135 |
| Salaries and Wages | 152,160 |
| Total Customer Accounts | <u>199,295</u> |
| Depreciation | |
| Depreciation | 671,299 |
| General and Administrative | |
| Salaries and Wages | 352,468 |
| Insurance | 263,137 |
| Pension and OPEB Expenses | 311,219 |
| Professional Services | 150,488 |
| Payroll Taxes | 66,026 |
| Directors' Fees | 38,655 |
| Meetings and Dues | 48,658 |
| Repairs and Maintenance | 17,992 |
| Telephone and Utilities | 20,935 |
| Office Supplies | 18,969 |
| Conservation | 31,439 |
| Bad Debt Expense | 10,395 |
| Education | 1,850 |
| Miscellaneous | 9,022 |
| Total General and Administrative | <u>1,341,253</u> |
| Total Operating Expenses | <u><u>\$ 3,998,911</u></u> |

See independent auditors' report



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

Board of Directors
Pico Water District
Pico Rivera, California

We have audited, 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, the financial statements of Pico Water District (the District), as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
September 25, 2020



Board of Directors
Pico Water District
Pico Rivera, California

We have audited the financial statements of the Pico Water District (the District) as of and for the year ended December 31, 2019, and have issued our report thereon dated September 25, 2020. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pico Water District are described in Note 1 to the financial statements.

For the year ended December 31, 2019, the District adopted new accounting guidance:

- As shown in Note 5 to the financial statements, the District implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. As a result of this implementation, debt from direct placements and direct borrowings are shown separately and additional essential information related to debt is disclosed in the note. Adoption of the standard affected the presentation within the footnote, therefore an emphasis of matter was not included in the Independent Auditors' Report.

Other than as described above, no other new accounting policies were adopted and the application of existing policies was not changed during the year ending December 31, 2019.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive accounting estimates affecting the financial statements were:

- Management’s estimate of the useful lives of its capital assets and the related period of depreciation which is based on historic knowledge of the assets and the frequency with which capital assets must be replaced;
- Management’s estimate of pension liabilities and postemployment benefits based upon actuarial assumptions; and
- Management’s estimate of unbilled revenues which is based on the revenue cycle of the water system and expected usage of water using historic information.

We evaluated the key factors and assumptions used to develop the sensitive accounting estimates described above in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following summarizes uncorrected misstatements of the financial statements:

| PAJE # 1 | | Dr. | Cr. |
|--|------------------|------------------|------------------|
| Record A/P Accrual for Construction in Progress at Yearend | | | |
| 10-000-1890 | Work in Progress | \$ 58,440 | |
| 10-000-2000 | Accounts Payable | | \$ 58,440 |
| Total | | \$ 58,440 | \$ 58,440 |

Corrected Misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Issues Discussed With Management Prior To Engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other Information in Documents Containing Audited Financial Statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial

Board of Directors
Pico Water District
Pico Rivera, California
Page 4

statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated September 25, 2020.

This communication is intended solely for the information and use of the Board of Directors and management of Pico Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
September 25, 2020