



**REGULAR MEETING OF THE BOARD OF DIRECTORS
PICO WATER DISTRICT**

4843 S. Church Street
Pico Rivera, California, 90660

5:30 PM Wednesday, August 3, 2022

AGENDA

Pursuant to the provisions of Government Code Section 54953(e), as amended by AB 361, any Board member and any member of the public who desires to participate in the open session items of this meeting may do so by accessing the Zoom link below to join by webcam or teleconference.

Any member of the public wishing to make any comments to the Board may do so through that Zoom link. The meeting Chair will acknowledge such individual(s) at the appropriate time in the meeting prior to making his or her comment. Members of the public wishing to make a comment are asked to state their name for the record and will be provided three (3) minutes to comment, the Board secretary will alert those commenting when they only have 30 seconds remaining. All members of the public will be disconnected from the Zoom link immediately before the Board of Directors adjourns into Closed Session.

Join Zoom Meeting

<https://us06web.zoom.us/j/9521779948?pwd=dGNxcXh3YitEc2NlVVdrUzVvNm4rZz09>

Join by Telephone: +1 669 900 6833

Meeting ID: 952 177 9948 Passcode: **421745**

- 1. ROLL CALL.**
- 2. PLEDGE OF ALLEGIENCE.**

3. INVOCATION.

4. TIME RESERVED FOR PUBLIC COMMENTS.

*Members of the public shall be allowed three minutes to address the Board on any matter on the agenda and/or within the jurisdiction of the District, which is not on the Agenda. All comments should be addressed to the presiding officer of the meeting. Additional public comments shall be allowed when a listed agenda item is being considered, but such comments made at that time must be confined to the subject that is being discussed at the time such comments are made. Members of the public are asked to state their name for the record. Due to all Board Meetings being run as Zoom Meetings all participants will be placed on mute at the start of the meeting and when the meeting is open for public comment the participant will be asked to raise their hand through the button on the video conference screen if participating by video conference or by pressing *9 on their phone if participating by teleconference.*

5. ADOPTION OF AGENDA.

6. APPROVAL OF CONSENT CALENDAR.

(All matters on the Consent Calendar are to be approved on one motion, unless a Board Member requests a separate action on a specific item).

A. Consider approval of July 20, 2022 Regular Board Meeting Minutes.

7. ACTION/DISCUSSION ITEMS.

A. Consider Board Approval of Resolution 233-R proclaiming a state of emergency persists, re-ratifying the proclamation of a state of emergency by Governor Gavin Newsom, and authorizing continued remote teleconference meetings. *Recommended action – that the Board approve Resolution 233-R proclaiming a state of emergency persists and ratifying the proclamation of a state of emergency by Governor Gavin Newsom. Recommended action – that the Board approve*

B. Consider Board Approval of the 2021 Audit Report completed by the auditing firm Gruber and Lopez, Inc. *Recommended Action – that the Board receive and file the 2021 Audit Report submitted by Gruber and Lopez, Inc.*

8. REPORTS.

A. General Manager.

B. Legal Counsel.

9. DIRECTOR'S REQUEST OF FUTURE AGENDA ITEMS.

10. BOARD MEMBER COMMENTS.

A. Report on Meetings Attended/Comments.

11. CLOSED SESSION.

CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

Initiation of litigation pursuant to paragraph (4) of subdivision (d) of Government Code Section 54956.9.

One Case.

12. CLOSED SESSION REPORT.

13. ADJOURNMENT.

AGENDA POSTED ON: July 28, 2022

Next regularly scheduled meeting: August 17, 2022

NOTE: To comply with the Americans with Disabilities Act, if you need special assistance to participate in any Board meeting, please contact the District office at (562) 692-3756 at least 48 hours prior to a Board meeting to inform the District of your needs and to determine if accommodation is feasible.

Materials related to an item on this agenda submitted after distribution of the agenda packet are available for public review at the District office, located at 4843 S. Church Street, Pico Rivera, California.

CONSENT ITEMS

**REGULAR MEETING OF THE BOARD OF DIRECTORS
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6. APPROVAL OF CONSENT CALENDAR.

(All matters on the Consent Calendar are to be approved on one motion, unless a Board Member requests a separate action on a specific item).

A. Consider approval of July 20, 2022 Regular Board Meeting Minutes.



MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE PICO WATER DISTRICT

A regular meeting of the Board of Directors of the Pico Water District was held in the District's Boardroom located at 4843 South Church Street, Pico Rivera, California, on Wednesday, July 20, 2022 at 5:30 p.m.

The District's General Manager, Mr. Joe Basulto proceeded with the roll call of the attending Board members. Present from the beginning of the meeting was Director David Gonzales, Director Victor Caballero, Vice President Raymond Rodriguez and President Pete Ramirez. Director Robert Martinez participated telephonically in adherence with social distancing. Mr. Jim Ciampa, Legal Counsel for the District was also present.

The General Manager led everyone in the Pledge of Allegiance.

Vice President Rodriguez gave the invocation.

President Ramirez proceeded to the next item on the Agenda, Public Comments. There were none.

President Ramirez proceeded to the adoption of the Agenda. Director Gonzales made the motion to approve the agenda and Vice President Rodriguez seconded the motion. The General Manager announced the motion passed by roll-call vote, 5 – 0.

President Ramirez proceeded to the next item on the Agenda, approval of Consent Calendar. Director Caballero made the motion to approve and President Ramirez seconded the motion. The General Manager announced the motion passed by roll call vote, 5 – 0.

President Ramirez proceeded to the next item on the Agenda, consider Board Approval of Revised Employment Contract ("Contract") with Joe Basulto as General Manager of Pico Water District. President Ramirez proceeded to inquire if there were any questions, page by page, on the Contract. Legal Counsel clarified the following items to the Board:

- a. that after the 3 quarterly performance reviews the General Manager will receive his annual performance evaluation no later than the first meeting in July;
- b. every year the Board approves a COLA increase for employees, the General Manager will also receive the COLA increase;
- c. the General Manager is entitled to all benefits afforded all employees of the District which also includes life insurance.

President Ramirez and the General Manager signed the contract. Director Martinez made a motion to approve the General Manager's Contract as presented and Director Gonzales seconded the motion. The General Manager announced the motion passed by roll-call vote, 5 – 0.

President Ramirez proceeded to the next item on the Agenda, consider Board approval of Addendum #1 fee proposal of \$12,000.00 for additional work requested by Pico Water District for the preparation and processing of the required LA County Permits for connection of the new discharge lines proposed for Well #8 and Well #5A, to the existing Los Angeles County storm drain system. The General Manager explained that this is additional work by our engineers, Kabbara Engineering to prepare and process the permit applications for both wells, this does not include the cost of the actual permit to the County of Los Angeles. After a brief discussion, Director Gonzales made the motion to approve and Vice President Rodriguez seconded the motion. The General Manager announced the motion passed by roll-call vote, 5 – 0.

President Ramirez proceeded to the next item on the Agenda, consider Board approval of Replacement the Variable Frequency Drive (VFD) at Well #8 proposal recommendation by Sulzer EMS at a cost of \$14,297.71. The General Manager asked that this matter be tabled to another time as additional information is required to determine the best course of action as it relates to the proposed installation of the PFAS treatment facility at this site. Director Martinez made the motion to table the item and bring it back as a future agenda item. Director Caballero seconded the motion. The General Manager announced that the motion to table passed by roll-call vote, 5 – 0.

President Ramirez proceeded to the next item on the Agenda, General Manager Report. The General Manager informed the Board that Dominguez General Engineering will be at Well 8 on Saturday, July 23, 2022 to install the discharge line and he will be inspecting the install; RC Foster states that they have received some material and expect to start the Well 11 PFAS treatment work approximately mid-August; Well 11 fence extension is scheduled to be installed on July 21, 2022; the Field Superintendent position is being advertised with a closing date of August 15, 2022; due to high COVID cases Los Angeles County is expected to make an announcement on July 29, 2022 that indoor masking will be required again; prior to Mr. Grajeda's departure he approved purchase of the Public Water Agencies Group (PWAG) emergency radio which allows communication between the District and other participating districts in the event of a disaster.

President Ramirez proceeded to the next item on the Agenda, Legal Counsel Report. Legal Counsel briefly touched on the PWAG Emergency Preparedness Coordinator, Alix Stayton, who took over for Mike Holmes who retired and if the Board would like to meet her to get an understanding of the workings of the PWAG Emergency Preparedness Program he would be happy to set that up. He also informed the Board that there is a Multi-Jurisdiction Mitigation Plan that is required if the District wants to be eligible for FEMA funds in the case of a disaster and the member agencies of PWAG came together to prepare a joint plan with a \$250,000 grant from FEMA which requires a 25% cost share by the agencies and PWAG is in the process of getting the contract awarded to a consultant to develop the mitigation plan.

President Ramirez proceeded to the next item on the Agenda, Informational Items. The General Manager informed the Board under Item B that there was a mainline break on June 23, 2022 at approximately 9:30 p.m. and staff worked into the morning to repair it.

Ramirez proceeded to the next item on the Agenda, Director's Request of Future Agenda Items. There were none.

President Ramirez proceeded to the next item on the Agenda, Board Member Comments. There were none.

The Board retreated to Closed Session at 6:08 p.m. regarding two matters.

The Board reconvened at 7:15 p.m. Legal Counsel reported that closed session was held regarding two matters of anticipated litigation under Government Code section 54956.9 paragraph (4) of subdivision (d) the Board was briefed on the status of the cases and no reportable action was taken.

There being no further business to come before the Board, the Board meeting adjourned at 7:16 p.m.

Elpidio Ramirez, President

Attest:

Joe D. Basulto, Secretary
(Seal)

ACTION/DISCUSSION ITEMS

**REGULAR MEETING OF THE BOARD OF DIRECTORS
PICO WATER DISTRICT**

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5:30 PM Wednesday, August 3, 2022

AGENDA

7. ACTION/DISCUSSION ITEMS.

- A. Consider Board Approval of Resolution 233-R proclaiming a state of emergency persists, re-ratifying the proclamation of a state of emergency by Governor Gavin Newsom, and authorizing continued remote teleconference meetings. *Recommended action – that the Board approve Resolution 233-R proclaiming a state of emergency persists and ratifying the proclamation of a state of emergency by Governor Gavin Newsom. Recommended action – that the Board approve.A*



RESOLUTION NO. 233-R

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PICO WATER DISTRICT PROCLAIMING A STATE OF EMERGENCY PERSISTS, RATIFYING THE PROCLAMATION OF A STATE OF EMERGENCY BY GOVERNOR GAVIN NEWSOM, AND AUTHORIZING REMOTE TELECONFERENCE MEETINGS OF THE BOARD OF DIRECTORS OF PICO WATER DISTRICT FOR THE PERIOD AUGUST 3, 2022 TO SEPTEMBER 2, 2022 PURSUANT TO BROWN ACT PROVISIONS

WHEREAS, the Pico Water District (the “District”) is committed to preserving and nurturing public access and participation in meetings of its Board of Directors; and

WHEREAS, all meetings of the District’s Board of Directors and its standing committees are open and public, as required by the Ralph M. Brown Act (California Government Code Sections 54950 – 54963), so that any member of the public may attend, participate, and watch those bodies conduct their business; and

WHEREAS, the Brown Act, in Government Code Section 54953(e), makes provision for remote teleconferencing participation in meetings by members of a legislative body, without compliance with the requirements of Government Code Section 54953(b)(3), subject to the existence of certain conditions; and

WHEREAS, a required condition for application of Section 54953(e) is that a state of emergency is declared by the Governor pursuant to Government Code Section 8625, proclaiming the existence of conditions of disaster or of extreme peril to the safety of persons and property within the state caused by conditions as described in Government Code Section 8558; and

WHEREAS, a proclamation is made when there is an actual incident, threat of disaster, or extreme peril to the safety of persons and property within the jurisdictions that are within the District’s boundaries, caused by natural, technological or human-caused disasters; and

WHEREAS, it is further required that state or local officials have imposed or recommended measures to promote social distancing, or the legislative body meeting in person would present imminent risks to the health and safety of attendees; and

WHEREAS, such conditions now exist in the District, specifically, COVID-19, and its Delta, Omicron and BA.2 and BA.5 variants, which remain highly contagious and, therefore, a

threat to the health, safety and well-being of the District's employees, directors, vendors, contractors, customers and residents; and

WHEREAS, orders from the Los Angeles County Department of Public Health and regulations from the State of California impose limitations on gatherings and provide guidance on best practices with respect to actions to reduce the spread of COVID-19; and

WHEREAS, the District's Board of Directors does hereby find that a state of emergency exists within the District's service area as a result of the continuing presence of COVID-19 and resulting local, state and federal orders and guidance, which has caused, and will continue to cause, conditions of peril to the safety of persons within the District that are likely to be beyond the control of services, personnel, equipment, and facilities of the District, and the Board of Directors desires to affirm a local emergency exists and ratify the proclamation of state of emergency by the Governor of the State of California; and

WHEREAS, as a consequence of the local emergency, the Board of Directors does hereby find that the District's Board of Directors and all standing committees shall conduct their meetings without compliance with paragraph (3) of subdivision (b) of Government Code Section 54953, as authorized by subdivision (e) of Section 54953, and that such legislative bodies shall continue to comply with the requirements to provide the public with access to the meetings as prescribed in paragraph (2) of subdivision (e) of Section 54953; and

WHEREAS, the District will continue to provide proper notice to the public regarding all District Board of Directors' and standing committee meetings, in accordance with Government Code Section 54953(e)(2)(A) and shall provide notice to the public of how they may access any such meeting via call-in number and/or internet link.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF PICO WATER DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. Recitals. The Recitals set forth above are true and correct and are incorporated into this Resolution by this reference.

Section 2. Proclamation Regarding Local Emergency. The Board of Directors hereby considers the conditions of the state of emergency in the District and proclaims that a local emergency now exists throughout the District, and that conducting District Board of Directors and standing committee meetings virtually will minimize the possible spread COVID-19 and any variant thereof.

Section 3. Ratification of Governor's Proclamation of a State of Emergency. The Board hereby ratifies the Governor of the State of California's Proclamation of State of Emergency regarding COVID-19, dated March 4, 2020.

Section 4. Remote Teleconference Meetings. The District's General Manager, or his delegate, and the Board of Directors and standing committees of the District are hereby authorized and directed to take all actions necessary to carry out the intent and purpose of this Resolution

including, continuing to conduct open and public meetings in accordance with Government Code section 54953(e) and other applicable provisions of the Brown Act.

Section 5. Effective Date of Resolution. This Resolution shall take effect immediately upon its adoption and shall be effective until the earlier of (i) the expiration of thirty (30) days from the date this Resolution is adopted, or (ii) such time as the Board of Directors adopts a subsequent resolution in accordance with Government Code section 54953(e)(3) to extend the time during which the Board of Directors and standing committees of the District may continue to teleconference without compliance with paragraph (3) of subdivision (b) of section 54953.

PASSED AND ADOPTED by the Board of Directors of Pico Water District this 3rd day of August, 2022, by the following vote:

Ayes:

Nays:

Abstains:

Absent:

Elpidio Ramirez, President

Attest:

Joe D. Basulto, Secretary

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AGENDA

7. ACTION/DISCUSSION ITEMS.

- B. Consider Board Approval of the 2021 Audit Report completed by the auditing firm Gruber and Lopez, Inc. *Recommended Action – that the Board receive and file the 2021 Audit Report submitted by Gruber and Lopez, Inc.*

STAFF REPORT

To: Honorable Board of Directors

From: Joe Basulto, General Manager

Meeting Date: August 3, 2022

Subject: Action Item 7B – Consider the 2021 Audit Report completed by the auditing firm Gruber and Lopez, Inc.

RECOMMENDATION

That the Board accept and file the 2021 Audit Report completed by the auditing firm Gruber and Lopez, Inc.

FISCAL IMPACT

The audit cost was approved in the District's 2022 Operating Budget.

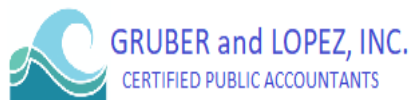
BACKGROUND

The District is required to have an audit performed on the District's financial dealings each year to show that the District is reporting its financial activity in a fair and transparent manner. When auditors arrive, they go through and test the District's financial documents to see if the District is following its designated policies, is documenting all financial dealings such as contract documentation, and they check to see that internal controls are in place to prevent fraud from occurring. The audit is not meant to be a complete review of all transactions that took place over the past year, however the audit should and does represent the results of any tests performed on the District's financial transactions that reflect whether or not the District is following good Governmental Accounting Standards and Procedures, and doing everything possible to assure that it is dealing properly with the public's money.

This year's audit represents work performed by Gruber and Lopez, Inc. who were selected by the Board at the December 2, 2021 Board Meeting. Mr. Ron Lopez, Partner at Gruber and Lopez, Inc. will be presenting the 2021 Audit to the Board.

PICO WATER DISTRICT
BASIC FINANCIAL STATEMENTS
(with Independent Auditors' Report Thereon)
Year Ended December 31, 2021

DRAFT



PICO WATER DISTRICT
Basic Financial Statements
Year Ended December 31, 2021

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Board of Directors
Pico Water District
Pico Rivera, California

Independent Auditors' Report

Opinion

We have audited the accompanying financial statements of Pico Water District (the "District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2021, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 on the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of detailed operating revenues and detailed operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedules of detailed operating revenues and detailed operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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.

Gruber and Lopez, Inc.

Newport Beach, California
June 24, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAFT

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

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, 2021. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$1,472,925. Operating revenue decreased by \$16,954 as compared to 2020, which was due to decreased water sales compared to the prior year. Operating expenses including depreciation increased 8% primarily due to increased depreciation, as well as repairs and maintenance expenses.
- Nonoperating revenues increased by \$1,875,549 due to capital contributions in 2021.
- The combined effect of these items resulted in an overall increase in the District's net position for 2021.

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, 2021**

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 is presented in Table 1.

**TABLE 1
Condensed Statements of Net Position**

	Year 2021	Year 2020	Dollar Change
Assets:			
Current and Other Assets	\$ 3,697,071	\$ 5,904,674	\$ (2,207,603)
Capital Assets	19,024,092	15,508,064	3,516,028
Total Assets	22,721,163	21,412,738	1,308,425
Deferred Outflows of Resources:			
Deferred Amount Pension Obligation	235,929	243,409	(7,480)
Deferred Amount OPEB Obligation	158,563	74,602	83,961
Total Deferred Outflows	394,492	318,011	76,481
Liabilities:			
Current Liabilities	1,342,814	1,238,636	104,178
Noncurrent Liabilities	7,237,261	8,172,157	(934,896)
Total Liabilities	8,580,075	9,410,793	(830,718)
Deferred Inflows of Resources:			
Deferred Amount Pension Obligation	614,887	104,764	510,123
Deferred Amount OPEB Obligation	408,110	175,534	232,576
Total Deferred Inflows	1,022,997	280,298	742,699
Net Position			
Net Investment in Capital Assets	12,390,708	10,299,255	2,091,453
Unrestricted	1,121,875	1,740,403	(618,528)
Total Net Position	\$ 13,512,583	\$ 12,039,658	\$ 1,472,925

As can be seen in Table 1, the District's net position increased by \$1,472,925 from fiscal year 2020 to 2021. The net position increase of \$1,472,925 combines an increase to Net Investment in Capital Assets of \$2,091,453 and a \$618,528 decrease in Unrestricted Net Position.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

NET POSITION (CONTINUED)

TABLE 2

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

	Year 2021	Year 2020	Dollar Change
Revenues			
Operating Revenues	\$ 4,243,404	\$ 4,260,358	\$ (16,954)
Nonoperating Revenues	2,018,789	143,240	1,875,549
Total Revenues	<u>6,262,193</u>	<u>4,403,598</u>	<u>1,858,595</u>
Expenses			
Depreciation Expense	775,955	627,712	148,243
Other Operating Expenses	3,766,651	3,550,014	216,637
Nonoperating Expense	246,662	256,917	(10,255)
Total Expenses	<u>4,789,268</u>	<u>4,434,643</u>	<u>354,625</u>
Change in Net Position	1,472,925	(31,045)	1,503,970
Net Position - Beginning of Year	<u>12,039,658</u>	<u>12,070,703</u>	<u>(31,045)</u>
Net Position - End of Fiscal Year	<u><u>\$ 13,512,583</u></u>	<u><u>\$ 12,039,658</u></u>	<u><u>\$ 1,472,925</u></u>

A closer examination of the source of changes in net position reveals that the District's total revenues increased by \$1,858,595 between 2021 and 2020. Operating Revenues decreased by \$16,954 largely due to decreased water sales from 2020 while Nonoperating Revenues increased due to capital contributions received during the year. Other operating expenses increased by \$216,637 primarily due to increased repairs and maintenance expense. Nonoperating expenses decreased by \$10,255 due to annual debt service interest charges.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

BUDGETARY HIGHLIGHTS

TABLE 3

2021 Actual vs. 2021 Budget

	2021 Actuals	2021 Budget	Variance
Revenues			
Operating Revenues	\$ 4,243,404	\$ 4,071,665	\$ 171,739
Nonoperating Revenues	2,018,789	60,400	1,958,389
Total Revenues	6,262,193	4,132,065	2,130,128
Expenses			
Operating Expenses			
Source of Supply	1,208,357	1,158,584	49,773
Pumping	564,913	487,500	77,413
Water Treatment	120,170	129,550	(9,380)
Transmission and Distribution	254,529	181,600	72,929
Customer Service	182,838	227,500	(44,662)
Depreciation	775,955	525,000	250,955
General and Administrative	1,435,844	1,330,450	105,394
Total Operating Expenses	4,542,606	4,040,184	502,422
Nonoperating Expenses	246,662	267,227	(20,565)
Total Expenses	4,789,268	4,307,411	984,279
Change in Net Position	<u>\$ 1,472,925</u>	<u>\$ (175,346)</u>	<u>\$ 1,648,271</u>

As Table 3 shows, change in net position ended the year favorably by \$1,648,271 when compared to budget. The difference is primarily due to the \$171,739 excess in Operating Revenues caused by higher than anticipated water sales and an excess of \$1,958,389 in Nonoperating Revenues caused by capital contributions not anticipated in budget.

**PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

CAPITAL ASSETS AND DEBT ADMINISTRATION CAPITAL ASSETS

At December 31, 2021, the District's investments in a broad range of infrastructure, as shown in Table 4, totaled \$19,024,093.

**TABLE 4
Capital Assets**

	Balance at January 1, 2021	Additions	Deletions and Transfers	Balance at December 31, 2021
Capital Assets:				
Nondepreciable Assets	\$ 4,879,362	\$ 4,468,890	\$ (6,262,810)	\$ 3,085,442
Depreciable Assets	20,981,611	6,085,904	(263,552)	26,803,963
Accumulated Depreciation and Amortization	(10,352,909)	(775,955)	263,552	(10,865,312)
Total Capital Assets, Net	<u>\$ 15,508,064</u>	<u>\$ 9,778,839</u>	<u>\$ (6,262,810)</u>	<u>\$ 19,024,093</u>

The major capital asset additions for the year ended December 31, 2021 included:

- New Well #11 - \$3,968,827
- Layman Mainline Replacement Project - \$533,464
- Beverly Blvd Mainline Replacement Project - \$886,735
- Stephens Street Mainline Replacement Project - \$333,623
- Burma Road Mainline Replacement Project - \$202,104
- Rosemead Extension Project - \$52,079
- Meter Replacements - \$24,628
- Well #11 Discharge Line - \$36,658

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 \$6,533,606 consisting of two infrastructure loans from IBank. This is 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 2022 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. Joe Basulto at Pico Water District.

BASIC FINANCIAL STATEMENTS

DRAFT

PICO WATER DISTRICT
Statement of Net Position
December 31, 2021

ASSETS

Current assets:	
Cash and investments (note 2)	\$ 2,089,766
Accounts receivable	744,081
Accrued interest receivable	936
Other receivables	718,156
Inventory of materials and supplies	59,268
Prepaid expenses and deposits	84,864
Total current assets	<u>3,697,071</u>
Noncurrent assets:	
Capital assets, not depreciated (note 3)	3,085,442
Capital assets, net of accumulated depreciation (note 3)	<u>15,938,650</u>
Total noncurrent assets	<u>19,024,092</u>
Total assets	<u>22,721,163</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension (note 6)	235,929
OPEB (note 7)	<u>158,563</u>
Total deferred inflows of resources	<u>394,492</u>

LIABILITIES

Current liabilities:	
Accounts payable	574,291
Accrued expenses	59,784
Accrued interest payable	99,778
Compensated absences - current portion	24,454
Note payable - current portion (note 5)	163,910
Refundable deposits	420,597
Total current liabilities	<u>1,342,814</u>
Noncurrent liabilities:	
Compensated absences	138,570
Note payable (note 5)	6,369,696
Net pension liability	76,836
Net other postemployment benefits obligation	<u>652,159</u>
Total noncurrent liabilities	<u>7,237,261</u>
Total liabilities	<u>8,580,075</u>

DEFERRED INFLOWS OF RESOURCES

Pension (note 6)	614,887
OPEB (note 7)	<u>408,110</u>
Total deferred inflows of resources	<u>1,022,997</u>

NET POSITION

Net investment in capital assets	12,390,708
Unrestricted	<u>1,121,875</u>
Total net position	<u><u>\$ 13,512,583</u></u>

See accompanying notes to the basic financial statements.

PICO WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2021

Operating revenues:	
Water sales	\$ 3,573,200
Water services	<u>670,204</u>
Total operating revenues	<u>4,243,404</u>
Operating expenses:	
Source of supply	1,208,357
Pumping	564,913
Water treatment	120,170
Transmission and distribution	254,529
Customer services	182,838
Depreciation (note 3)	775,955
General and administrative	<u>1,435,844</u>
Total operating expenses	<u>4,542,606</u>
Operating income (loss)	<u>(299,202)</u>
Non-operating revenues (expenses):	
Investment loss	(3,017)
Rental income	20,200
Interest expense and fees	(243,645)
Grant income	20,092
Gain on disposal of assets	28,295
Other revenues (expenses), net	<u>25,046</u>
Total non-operating revenues (expenses)	<u>(153,029)</u>
Income (loss) before capital contributions	(452,231)
Capital Contributions:	
Developer fees	<u>1,925,156</u>
Change in net position	1,472,925
Net position, beginning of year	<u>12,039,658</u>
Net position, end of year	<u><u>\$ 13,512,583</u></u>

See accompanying notes to the basic financial statements.

PICO WATER DISTRICT
Statement of Cash Flows
For the year ended December 31, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 4,347,700
Cash paid to suppliers for goods or services	(2,469,824)
Cash paid to employees for services	(1,422,528)
Net cash provided (used by) operating activities	<u>455,348</u>
Cash flows from noncapital financing activities:	
Other nonoperating revenue (expense)	<u>45,138</u>
Net cash provided (used by) noncapital financing activities	<u>45,138</u>
Cash flows from capital and related financing activities:	
Proceeds from developer fees	1,925,156
Payment of principal and interest on loan	(404,166)
Acquisition and construction of capital assets	(4,889,484)
Net cash provided (used by) capital and related financing activities	<u>(3,368,494)</u>
Cash flows from investing activities:	
Proceeds from rental property	20,200
Interest and investment earnings received	831
Net cash provided (used by) investing activities	<u>21,031</u>
Net increase (decrease) in cash and cash equivalents	(2,846,977)
Cash and equivalents, beginning of year	<u>4,936,743</u>
Cash and equivalents, end of year	<u><u>\$ 2,089,766</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (299,202)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	775,955
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(8,217)
(Increase) decrease in inventory of materials and supplies	13,676
(Increase) decrease in prepaid expenses and deposits	(22,885)
Increase (decrease) in accounts payable	83,698
Increase (decrease) in accrued expenses	(6,915)
Increase (decrease) in compensated absences	(27,750)
Increase (decrease) in refundable deposits	28,167
Increase (decrease) in net Pension liability	(86,364)
Increase (decrease) in net OPEB liability	5,185
Total adjustments	<u>754,550</u>
Net cash provided (used) by operating activities	<u><u>\$ 455,348</u></u>

See accompanying notes to the basic financial statements.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year ended June 30, 2021

(1) Summary of Significant Accounting Policies

a. 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, five of which are in use and one of which is 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.

b. Basis of Accounting

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 a 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.

c. 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 transaction 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.

d. 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, 2021, 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
(Continued)

(1) Summary of Significant Accounting Policies (continued)

e. 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.

f. Inventory

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

g. 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	20-50 years
Wells and reservoirs equipment	5-10 years
Pumps and tanks	20-25 years
Water treatment equipment	5-10 years
Transmission and distribution	15-50 years
General plant and other	5-25 years

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

h. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period. The deferred outflows of resources related to pension and OPEB resulted from District contributions subsequent to the measurement date of the actuarial valuation and the effects of actuarially-determined changes. These amount are deferred and amortized as detailed in Note 6 for pension and Note 7 for OPEB to the financial statements.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(1) Summary of Significant Accounting Policies (continued)

i. 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.

j. Net Pension Obligation

For purposes of measuring the net position liability and deferred outflows/inflows of resources related to pensions, the 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. Investment are reported at fair value.

k. Postemployment Benefits Other than Pensions (OPEB)

The District participates in a single employer defined benefit postemployment health care 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 payments when due and payable in accordance with the benefit terms.

l. 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 on Note 6 for pensions and Note 7 for OPEB to the financial statements.

m. Net Position

Net position of the District can be classified into three components: net investment in capital assets, restricted, and unrestricted. These classification 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.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(1) Summary of Significant Accounting Policies (continued)

m. Net Position (continued)

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, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of December 31, 2021, 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 the “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.

n. Operating Revenue and Expenses

Operating revenues and expenses, 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. Nonoperating revenues, such as investment income and rental income, result from nonexchange 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 sale and services, administrative expenses, and depreciation on capital assets.

o. Revenue Recognition

Revenue is recognized and account 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.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(1) Summary of Significant Accounting Policies (continued)

p. Use of Estimates

The preparation of financial statement 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.

q. New Accounting Pronouncements

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*. In this Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard was implemented in fiscal year 2021 but did not have a material effect on the financial statements.

Governmental Accounting Standards Board Statement No. 90 – In August 2018, GASB issues Statement No. 90, *Majority Equity Interest* – 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. This standard was implemented in fiscal year 2021 but did not have a material effect on the financial statements.

(2) Cash and Investments

Cash and investments at December 31, 2021 are as follows:

Cash on hand	\$ 700
Deposits held with financial institutions	528,113
Investments in Local Agency Investment Fund	<u>1,560,953</u>
Total cash and investments	<u>\$ 2,089,766</u>

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

The following table identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. The table also

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments (continued)

identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Investment Types</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills, Bonds and Notes	5 years	None	None
U.S. Government 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
Local Agency Investment Fund (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, 2021, 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. The District has limited exposure to interest rate risk as all funds are currently invested in short term investments.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District investments by maturity at December 31, 2021.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments (continued)

<u>Investment Type</u>	<u>Remaining Investment Maturities</u>			<u>Total</u>
	<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>4 to 5 Years</u>	
Local Agency Investment Fund	<u>\$1,560,953</u>	<u>-</u>	<u>-</u>	<u>1,560,953</u>
Total	<u>\$1,560,953</u>	<u>-</u>	<u>-</u>	<u>1,560,953</u>

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

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover 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 a counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits 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 individual collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 150% of the total amount deposited by the public agencies.

Investments in State Investment Pool

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

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments (continued)

Fair Value Hierarchy

The District follows the provisions of GASB Statement No. 72 *Fair Value Measurement and Application* which requires the District to categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments in LAIF are uncategorized as deposit and withdrawals are made on the basis of \$1 and not fair value.

(3) Capital Assets

Capital asset activity for the year ended December 31, 2021 is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-depreciable:				
Land and easement	\$ 417,363	-	-	417,363
Water rights	216,000	-	-	216,000
Construction in process	<u>4,245,999</u>	<u>4,468,890</u>	<u>(6,262,810)</u>	<u>2,452,079</u>
Total non-depreciable	<u>4,879,362</u>	<u>4,468,890</u>	<u>(6,262,810)</u>	<u>3,085,442</u>
Depreciable:				
Wells and reservoirs	1,698,560	3,968,827	(78,013)	5,589,374
Pumps and tanks	882,136	-	(16,502)	865,634
Water treatment equipment	44,138	-	-	44,138
Transmission and distributions	15,941,026	2,108,577	(27,508)	18,022,095
General plant	2,259,939	8,500	(121,842)	2,146,597
Rental house	119,029	-	(17,777)	101,252
SCADA system and equipment	<u>36,783</u>	<u>-</u>	<u>(1,910)</u>	<u>34,873</u>
Total depreciable capital assets	<u>20,981,611</u>	<u>6,085,904</u>	<u>(263,552)</u>	<u>26,803,963</u>
Less accumulated depreciation	<u>(10,352,909)</u>	<u>(775,955)</u>	<u>263,552</u>	<u>(10,865,312)</u>
Total depreciable capital assets, net	<u>10,628,702</u>	<u>5,309,949</u>	<u>-</u>	<u>15,938,651</u>
Total capital assets, net	<u>\$15,508,064</u>	<u>9,778,839</u>	<u>(6,262,810)</u>	<u>19,024,093</u>

Depreciation expense for the year ended December 31, 2021 was \$775,955.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(4) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the “Authority”).

The Authority is risk-pooling self-insurance authority, organized under a joint powers agreement pursuant to California Government Code §6500, et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage’s.

At December 31, 2021, as a member of the Authority, the District participated in the insurance programs as follows:

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

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

Automobile Liability. The District is insured up to \$55,000,000 per occurrence with no deductible; the Authority is self-insured up to \$5,000,000 and excess insurance coverage of \$50,000,000.

Workers’ Compensation. The District is insured for statutory limits. The District is insured up to \$4,000,000 per accident. The Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

Public Official’s Liability. The District is insured for error and omissions up to \$55,000,000 per occurrence with no deductible; the Authority is self-insured up to \$5,000,000 and excess insurance coverage of \$50,000,000.

Employee Dishonesty/Crime Coverage. The District is insured up to \$100,000 per occurrence with \$1,000 deductible for employee dishonesty, forgery or alternation, computer fraud and ERISA.

Earthquake and Flood. The District is insured up to \$25,000,000 per occurrence with a 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

(Continued)

(5) Notes Payable

As of December 31, 2021, 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>	<u>Total</u>
2022	\$ 163,910	240,255	404,165
2023	169,922	234,243	404,165
2024	176,156	228,009	404,165
2025	182,619	221,546	404,165
2026	189,321	214,844	404,165
2027-2031	1,056,117	964,709	2,020,826
2032-2036	1,264,916	755,910	2,020,826
2037-2041	1,515,243	505,583	2,020,826
2042-2046	<u>1,815,402</u>	<u>205,424</u>	<u>2,020,826</u>
Total	<u>\$6,533,606</u>	<u>3,570,523</u>	<u>10,104,129</u>

The schedule below summarizes changes in long-term debt during the year ended December 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Direct borrowing:					
California Infrastructure	\$4,842,727	-	111,777	4,730,950	116,069
Economic Development Bank	<u>1,848,992</u>	<u>-</u>	<u>46,336</u>	<u>1,802,656</u>	<u>47,841</u>
Total	<u>\$6,691,719</u>	<u>-</u>	<u>158,113</u>	<u>6,533,606</u>	<u>163,910</u>

For the year ended December 31, 2021, the District incurred \$243,645 of interest expense.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Defined Benefit Pension Plans

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 had 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:

<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	\$76,836	\$235,929	\$614,887	\$(22,418)

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 year 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 nonduty 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 Postretirement 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

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Defined Benefit Pension Plans (continued)

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.

The Plan provisions and benefits in effect at December 31, 2021, are shown below:

	Miscellaneous Risk Pool	
	Classic	PEPRA
Hire Date	On or Before December 31, 2012	On or After January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Required employee contribution rates	6.908%	7.25%
Required employer contribution rates	11.816%	7.847%

Contributions – Section 20814© of the California Public Employees' Retirement Law requires that the employer contribution rate 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 any unfunded accrued liability. The District is required to contribute the difference between the actuarial 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, 2021 are presented above and the total District required contributions to the Plan were \$119,421.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – As of December 31, 2021, the District reported net pension liability for its proportionate share of the Miscellaneous Risk Pool net pension liability totaling \$76,836. As permitted by GASB standards, the net pension liability was determined based upon the measurement date of Juen 30, 2021. 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 net pension liability for the District's Plan as of the December 31, 2021 and 2020 was as follows:

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Defined Benefit Pension Plans (continued)

	<u>Miscellaneous</u>
Proportion – December 31, 2020	0.016140%
Proportion – December 31, 2021	0.004047%
Change – Increase (Decrease)	(0.012093)%

For the year ended December 31, 2021, the District recognized pension expense of \$(22,418). At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 63,944	-
Change in proportion	116,972	-
Net difference in actual contributions vs. proportionate share of contributions	-	(112,318)
Net difference between expected and actual experience	55,013	-
Net differences between projected and actual earnings on plan investments	-	(500,411)
Change in assumptions	-	(2,158)
Total	<u>\$ 235,929</u>	<u>(614,887)</u>

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 position liability in the year ended December 31, 2022. The net difference between projected and actual earnings on the 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, 2021 measurement date is 3.8 years. The first year of amortization is recognized in pension expense for the year the gain or losses occurs. The remaining amounts are deferred and will be amortized over the remaining period not to exceed 2.8 years.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(6) Defined Benefit Pension Plans (continued)

Remaining amounts will be recognized to pension expense as follows:

Year Ended December 31	
2022	\$ (124,983)
2023	(93,800)
2024	(92,884)
2025	(131,235)
	<u>\$ (442,902)</u>

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, 2020, which was rolled forward to the June 30, 2021 measurement date. As permitted by GASB standards, the District's net pension liability was determined based upon the measurement date of June 30, 2021.

The financial reporting actuarial valuation as of the June 30, 2020 used the methods and assumptions herein, applied to all prior periods included in the measurement.

	<u>Miscellaneous</u>
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by Entry Age
Investment Rate of Return	7.375% (1)
Mortality	Varies (2)

(1) Net of pension plan investment expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale AA.

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

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Defined Benefit Pension Plans (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the District's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In determining the long-term expected 7.15 percent rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Based on the expected benefit payments of the Public Employees' Retirement Fund, CalPERS indicated that a 19 year horizon was ideal in determining the level equivalent discount rate assumption. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for the Plan. These geometric rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	New Strategic Allocation	Real Return Years 1-10 ^(a)	Real Return Years 11+ ^(b)
Fixed Income	28.0%	1.0%	2.62%
Liquidity	1.0%	0.0%	(0.92%)
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.3%	7.23%
Real Assets	13.0%	3.75%	4.93%
Public Equity	50.0%	4.8%	5.98%
Total	100%		

(a) An expected inflation of 2.0% used for this period.

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

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Defined Benefit Pension Plans (continued)

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

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	\$770,352
Current Discount Rate	7.15%
Net Pension Liability	\$76,836
1% Increase	8.15%
Net Pension Liability	\$(496,485)

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

(7) Other Post Employment Benefits (OPEB)

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 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 \$67,500 to the Retiree Benefit Trust for the year ended June 30, 2021 and \$49,997 in employer contributions for the year ended December 31, 2021, including the implicit rate subsidy. The table herein shows the participants as of December 31, 2021.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(7) Other Post Employment Benefits (OPEB) (continued)

Active employees	10
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to, but not yet receiving benefits	-
Total	<u>13</u>

Net OPEB Liability (Asset) – The table below shows the components of the net OPEB liability of the District:

Total OPEB Liability	\$1,556,380
Plan Fiduciary Net Position	<u>(904,221)</u>
District's Net OPEB Liability (Asset)	<u>\$ 652,159</u>

Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	-58.10%
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Investments – As December 31, 2021, all Plan investments are held in the California Employers' Retiree Benefit Trust program (CERBT) through CalPERS.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ 143,304	-
Difference between expected and actual experience	9,257	(330,834)
Difference between projected and actual return on investments	<u>6,002</u>	<u>(77,276)</u>
Total	<u>\$ 158,563</u>	<u>(408,110)</u>

The deferred outflows of resources results from a change of assumptions and is amortized over the expected average remaining service life (EARSLS) of the plan participants. The EARSLS for the OPEB plan for December 31, 2021 is five 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 four years.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(7) Other Post Employment Benefits (OPEB) (continued)

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 experience 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.

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

Year Ended June 30	
2022	\$ (32,557)
2023	(33,152)
2024	(32,437)
2025	(34,236)
2026	(15,277)
Thereafter	<u>(101,888)</u>
	<u>\$ (249,547)</u>

Actuarial Methods and Assumptions – The District’s net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. 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.

Actuarial Assumptions:

Investment rate of return	6.5%
Projected salary increase	2.75%
Medical cost trend rate	4.0%
Mortality	4.0% (1)

- (1) Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(7) Other Post Employment Benefits (OPEB) (continued)

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	40.0%	7.545%
All Fixed Income	43.0%	4.250%
Real Estate Investment Trusts	8.0%	7.250%
All Commodities	4.0%	7.545%
Treasury Inflated Protected Securities (TIPS)	5.0%	3.000%
Total	100.0%	

Discount Rate – The discount rate used to measure the OPEB liability was 6.25 percent. 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 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

(Continued)

(7) Other Post Employment Benefits (OPEB) (continued)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/ (Asset) (c)=(a)-(b)
Balance at Fiscal Year Ending 6/30/20 <i>Measurement Date 6/30/18</i>	\$1,490,424	694,835	795,589
Changes During the Period:			
Service cost	47,686	-	47,686
Interest cost	98,427	142,152	(43,725)
Actual and expected experience difference	(185,021)	-	(185,021)
Employer contributions	-	117,497	(117,497)
Change in assumptions	154,861	-	154,861
Benefit payments	(49,997)	(49,997)	-
Administrative expenses	-	(266)	(266)
Net Changes in Fiscal Year 2020-21	65,956	209,386	(143,430)
Balance at Fiscal Year Ending 6/30/21 <i>Measurement Date 6/30/20</i>	\$1,556,380	904,221	652,159

Sensitivity of the OPEB Liability (Asset) to Changes in the Discount Rate – The following presents the Districts' OPEB liability (asset), calculated using the discount rate, as well as what the District's OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	5.25%
OPEB Liability (Asset)	918,973
Current Discount Rate	6.25%
OPEB Liability (Asset)	\$652,159
1% Increase	7.25%
OPEB Liability (Asset)	435,929

PICO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(7) Other Post Employment Benefits (OPEB) (continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Health Care Cost Trends
– The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for the measurement period December 31, 2021:

1% Decrease	3.0%
OPEB Liability (Asset)	\$393,620
Current Rate	4.0%
OPEB Liability (Asset)	652,159
1% Increase	5.0%
OPEB Liability (Asset)	\$983,963

OPEB Expense – For the year ended December 31, 2021, the District recognized OPEB expense of \$66,477.

(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.

(9) Risks and Uncertainties

The District's operations may be affected by the recent and ongoing outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, possible effects may include, but are not limited to, a reduction in revenues and a decline in the value of investments, which could have an impact on the District's financial position and operating results. There is significant uncertainty as to the severity and longevity of the outbreak and District management is in the process of evaluating the impact on the District and its financial statements.

(10) Subsequent Events

Management has evaluated subsequent events through June 24, 2022, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the District.

REQUIRED SUPPLEMENTARY INFORMATION

DRAFT

PICO WATER DISTRICT
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

Cost Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years *

	As of the fiscal year ending December 31,				
	2021	2020	2019	2018	2017
Measurement date	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Plan's proportion of the collective net pension liability	0.001421%	0.016140%	0.013669%	0.011461%	0.011830%
Plan's proportionate share of the net pension liability	\$ 76,836	\$ 680,803	\$ 680,803	\$ 431,937	\$ 466,342
Covered payroll, measurement date	\$ 713,546	\$ 698,909	\$ 684,785	\$ 707,715	\$ 685,639
Plan's proportionate share of the net pension liability as percentage of covered payroll	10.77%	97.41%	99.42%	61.03%	68.02%
Plan's fiduciary net position as a percentage of the total pension liability	98.54%	90.05%	90.05%	91.74%	90.69%

	As of the fiscal year ending December 31,	
	2016	2015
Measurement date	6/30/2015	6/30/2014
Plan's proportion of the collective net pension liability	0.009610%	0.002566%
Plan's proportionate share of the net pension liability	\$ 333,859	\$ 64,847
Covered payroll, measurement date	\$ 644,476	\$ 616,120
Plan's proportionate share of the net pension liability as percentage of covered payroll	51.80%	10.53%
Plan's fiduciary net position as a percentage of the total pension liability	92.50%	98.47%

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes in assumptions:

From fiscal year 6/30/15 to 6/30/16: GASB 69 paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expenses. The discount rate of 7.5% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017: There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018: The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019: Demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. Inflation was reduced from 2.75% to 2.50%.

From fiscal year June 30, 2019 to June 30, 2021: There were no changes in assumptions.

* - Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

PICO WATER DISTRICT
Schedule of Plan Contributions - Defined Benefit Pension Plan

Cost Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years *

	As of the fiscal year ending June 30,				
	2021	2020	2019	2018	2017
Valuation Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Contractually required contributions (actuarially determined)	\$ 119,421	\$ 81,822	\$ 55,622	\$ 69,561	\$ 69,915
Contributions in relation to the actuarially determined contributions	\$ (119,421)	\$ (81,822)	\$ (55,622)	\$ (69,561)	\$ (69,915)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 698,909	\$ 689,948	\$ 698,909	\$ 684,785	\$ 707,715
Contributions as a percentage of covered payroll	17.09%	11.86%	7.96%	10.16%	9.88%

	As of the fiscal year ending June 30,	
	2016	2015
Valuation Date	6/30/2013	6/30/2012
Contractually required contributions (actuarially determined)	\$ 75,888	\$ 60,692
Contributions in relation to the actuarially determined contributions	\$ (75,888)	\$ (60,692)
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 685,639	\$ 644,476
Contributions as a percentage of covered payroll	11.07%	9.42%

Notes to Schedule:

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	Market Value
Inflation	2.500%	2.625%	2.750%	2.750%	2.750%
Salary increases	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.00% (3)	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age	Entry Age
Amortization method	(1)	(1)
Asset valuation method	Market Value	15-Year Smoothed Market Method
Inflation	2.750%	2.750%
Salary increases	(2)	(2)
Investment rate of return	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)
Mortality	(5)	(5)

- (1) Level percentage pf pay, direct rate smoothing
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expenses, including inflation
- (4) 50 for all plans with the exception of 52 for Miscellaneous PEPRA which is 2% at 62
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board

* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

PICO WATER DISTRICT
Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios

Last 10 Fiscal Years *

<i>Measurement Period</i>	As of the fiscal year ending December 31,			
	2018	2019	2020	2021
Total OPEB Liability				
Service cost	\$ 43,241	44,430	46,410	47,686
Interest on the total OPEB Liability	92,082	97,794	90,936	98,427
Actual and expected experience difference	-	(200,904)	-	(185,021)
Changes in assumptions	-	-	-	154,861
Changes in benefit terms	-	-	-	-
Benefit payments	(45,968)	(50,131)	(45,478)	(49,997)
Net change in total OPEB liability	89,355	(108,811)	91,868	65,956
Total OPEB liability - beginning	1,418,012	1,507,367	1,398,556	1,490,424
Total OPEB liability - ending (a)	<u>\$ 1,507,367</u>	<u>1,398,556</u>	<u>1,490,424</u>	<u>1,556,380</u>
Plan Fiduciary Net Position				
Contribution - employer	\$ 112,968	132,131	123,705	117,497
Net investment income	27,250	33,642	40,907	142,152
Investment gains/losses	(3,001)	3,588	(9,009)	-
Benefit payments	(45,968)	(50,131)	(56,205)	(49,997)
Administrative expense	(723)	(109)	(304)	(266)
Net change in plan fiduciary net position	90,526	119,121	99,094	209,386
Plan fiduciary net position - beginning	386,094	476,620	595,741	694,835
Plan fiduciary net position - ending (b)	<u>\$ 476,620</u>	<u>595,741</u>	<u>694,835</u>	<u>904,221</u>
Net OPEB liability (asset) - ending (a)-(b)	<u>\$ 1,030,747</u>	<u>802,815</u>	<u>795,589</u>	<u>652,159</u>
Covered-employee payroll	\$ 727,985	737,564	723,443	752,867
Net OPEB liability (asset) as a percentage of covered-employee payroll	141.59%	108.85%	109.97%	86.62%

Notes to Schedule

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

PICO WATER DISTRICT
Schedule of Plan Contributions - OPEB Plan

Last 10 Fiscal Years *

	As of the fiscal year ending June 30,			
	2021	2020	2019	2018
Actuarially determined contribution	\$ 117,497	\$ 123,705	132,131	112,968
Contributions in relation to the actuarially determined contributions	\$ (117,497)	\$ (123,705)	(132,131)	(112,968)
Contribution deficiency (excess)	\$ -	\$ -	-	-
Covered-employee payroll	\$ 752,867	\$ 723,443	737,564	727,985
Contributions as a percentage of covered employee payroll	15.61%	17.10%	17.91%	15.52%

Notes to schedule:

Actuarial Cost Method	Entry-age normal
Amortization Valuation	
Method/Period	Level percent of pay
Asset valuation method	Market value of assets
Inflation	2.75% for valuation dates 6/30/2015-6/30/17; 2.5% for valuation date 6/30/2019.
Payroll Growth	3.0% for valuation dates 6/30/2015 and 6/30/2019; 3.25% for valuation date 6/30/2017.
Investment rate of return	7.25%, net of plan investment expenses and including inflation
Healthcare Cost-Trend Rates	For valuation date 6/30/2017, assumed increase occurs once each year with premium increase of 7.5% on 1/1/19 with increase of 0.5% less each January 1 thereafter through 2024. Assumed 5.0% increases for year 2014 and later. 5.4% in 2021 fluctuating down to 4% by 2076.
Mortality	Most recent CalPERS experience study.
Mortality Improvement	Most recent MacLeod Watts Scale, generationally applied.

* Fiscal year 2017-18 was the first year of implementation, therefore only four years are shown.

PICO WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2021

(1) Purpose of Schedules

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios – 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 Plan Contribution – Defined Benefit Pension Plan – The schedule presents information on the District's required contribution, the amount 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 and Related Ratios – 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 Plan Contributions – OPEB Plan – 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.

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SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT
Schedule of Detailed Operating Revenues
For the Year Ended December 31, 2021

Water Sales Revenues

Residential	\$ 2,183,316
Multi-user	456,354
Business	568,970
Other	<u>364,560</u>
Total water sales revenues	<u>3,573,200</u>

Water Service Revenues

Late charges	33,180
Fire protection	72,091
Infrastructure surcharge	416,410
Other	<u>148,523</u>
Total water service revenues	<u>670,204</u>

Total operating revenues	<u><u>\$ 4,243,404</u></u>
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PICO WATER DISTRICT
Schedule of Detailed Operating Revenues
For the Year Ended December 31, 2021

Source of Supply

Ground water replenishment	\$ 1,082,908
Recycled water	49,896
Salaries and wages	<u>75,553</u>
Total source of supply expenses	<u>1,208,357</u>

Pumping

Power	242,256
Maintenance	126,743
Salaries and wages	<u>195,914</u>
Total pumping expenses	<u>564,913</u>

Water Treatment

Water treatment regulations	33,284
Chemicals and lab testing	82,074
Salaries and wages	<u>4,812</u>
Total water treatment expenses	<u>120,170</u>

Transmission and distribution

Maintenance	120,525
Vehicle expenses	20,401
Salaries and wages	<u>113,603</u>
Total transmission and distribution expenses	<u>254,529</u>

Customer Accounts

Supplies	63,573
Salaries and wages	<u>119,265</u>
Total customer accounts expenses	<u>182,838</u>

Depreciation

775,955

General and Administrative

Salaries and wages	362,345
Insurance - benefits	241,723
Insurance - property, earthquake, and auto	47,642
Pension and OPEB expenses	170,895
Professional services	339,839
Payroll taxes	70,842
Directors' fees	34,200
Meeting and dues	38,737
Repairs and maintenance	20,599
Telephone and utilities	22,589
Office supplies	8,295
Conservation	19,849
Election expense	57,211
Education	600
Miscellaneous	<u>478</u>
Total general and administrative expenses	<u>1,435,844</u>

Total operating expenses	<u><u>\$ 4,542,606</u></u>
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Board of Directors
Pico Water District
Pico Rivera, California

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pico Water District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Pico Water District's basic financial statements, and have issued our report thereon dated June 24, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Pico Water District 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noted on instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Gruber and Lopez, Inc.

Newport Beach, California
June 24, 2022