



Yucaipa Valley Water District

12770 Second Street, Yucaipa, California 92399

# Annual Financial Statements

for the

Fiscal Year Ending June 30, 2019

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## Board of Directors

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Chris Mann

Division 1

Bruce Granlund

Divisions 2

Jay Bogh

Division 3

Lonni Granlund

Division 4

Joyce McIntire

Division 5

## **Financial Audit Preparation Team:**

Allison M. Edmisten, Chief Financial Officer

Kathryn Hallberg, Management Analyst

Matthew Porras, Management Analyst

Denise Howard, Purchasing Agent

Erin Anton, Administrative Clerk V

Tysa Baeumel, Administrative Clerk IV

Allie Barry, Administrative Clerk IV

Sara Onate, Administrative Clerk IV



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## **INTRODUCTION**

It is my pleasure to provide the following financial report for Yucaipa Valley Water District ("District") for the fiscal year ended on June 30, 2019. The financial report was prepared by District staff following guidelines set forth by the Governmental Accounting Standards Board.

The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

This report is organized into the following sections: (1) Transmittal Letter and District Overview; (2) Management Discussion & Analysis; (3) Audited Financial Statements and (4) Required Supplementary Information. The first section provides the reader with a general overview of the District. The Management Discussion & Analysis section offers a summary of significant financial results. The Audited Financial Statements section includes the Independent Auditors' Report. The Required Supplementary section provides information and schedules to supplement the basic financial statements.

## **OVERVIEW OF THE DISTRICT**

The Yucaipa Valley Water District is made up of a proactive group of elected officials and employees dedicated to providing reliable drinking water, recycled water and sewer service in an efficient, cost effective manner that provides a high level of customer satisfaction. On May 1, 2002, the Board of Directors adopted the following mission statement to clearly reflect the vision and principles that guide elected officials and employees of the District.

Yucaipa Valley Water District is committed to professionally managing the precious water, sewer and recycled water resources of the Yucaipa Valley in a reliable, efficient and cost effective manner in order to provide the finest service to our customers, both present and future.

We are entrusted to serve the public for the benefit of the community.

We believe in responsive, innovative and aggressive service, and take pride in getting the job done right the first time.

We encourage a work environment that fosters professionalism, creativity, teamwork and personal accountability.

We treat our customers and one another with fairness, dignity, respect and compassion and exhibit the utmost integrity in all we do.

We believe in enhancing the environment by following a general philosophy of eliminating waste and maximizing recycling and reuse of our natural resources.

We are committed to using the following operating principles as a guide to accomplishing our mission:

- We are proactive in our approach to issues.
- We are committed to integrity and consistently high ethical standards in all our business dealings.
- We use the strategic planning process to focus our efforts and minimize our crisis management mode.
- We make informed, rational and objective decisions.
- We aggressively pursue technological solutions to improve operations.
- We are inclusive in our decision making and delegate responsibility whenever possible.
- We design our services around customer wants and needs to the degree possible within our financial and regulatory constraints.
- We cultivate widespread commitment to common goals.

We believe our success depends on every employee knowing and sharing these values and principles.

This financial report is a reflection of the District's commitment to professionally manage the precious water, sewer and recycled water resources and infrastructure of the Yucaipa Valley in a reliable, efficient, and cost-effective manner in order to provide the finest service to our customers, both present and future.

To meet the mission of the District, the Board and staff members continue to proactively focus on water quality issues, water supply issues, infrastructure deficiencies, maintenance of existing systems and compliance with increasingly stringent regulatory requirements.

## **Historical Background**

The District was formed as part of reorganization, pursuant to the Reorganization Act of 1965, being Division I of Title 6 of the Government Code of the State of California. This reorganization consisted of the formation of the District, dissolution of the Calimesa Water District and formation of Improvement District No. 1 of the District as successor-in-interest, and dissolution of Improvement District "A" of the San Bernardino Valley Municipal Water District and the formation of Improvement District "A" of the District as successor-in-interest. On September 14, 1971, the Secretary of State of the State of California certified and declared the formation of the Yucaipa Valley County Water District. The District operates under the County Water District Law, being Division 12, section 30000 of the State of California Water Code. Although the immediate function of the District was to provide water service, the District has assumed responsibility for providing recycled water and sewer service in Yucaipa Valley.

The District is located about 70 miles east of Los Angeles and 20 miles southeast of San Bernardino in the foothills of the San Bernardino Mountains and provides water, sewer, and recycled water services.

As of June 30, 2019, the District provided service to 13,794 water connections (19,243 units), 14,104 sewer connections (22,774 units) and 111 recycled water connections (460 units).

Customer Type	Drinking Water Enterprise		Sewer Enterprise		Recycled Water Enterprise	
	Number of Service Connections	Water Service Units (WSUs)	Number of Service Connections	Sewer Service Units (SSUs)	Number of Service Connections	Recycled Service Units (RSUs)
Single Family	11,876	12,602	10,358	10,315	--	--
Multiple Units	467	5,331	454	5,311	--	--
Commercial	225	626	216	1,011	--	--
Institutional	78	370	57	295	--	--
Industrial	6	17	3	3	--	--
Irrigation	111	297	7	18	--	--
Fire Detectors	1,013	--	--	--	--	--
Construction Water	18	--	--	--	7	--
Recycled Water	--	--	--	--	104	460
Sewer Only	--	--	3,009	5,822	--	--
<b>Total</b>	<b>13,794</b>	<b>19,243</b>	<b>14,104</b>	<b>22,774</b>	<b>111</b>	<b>460</b>

### **Land and Land Use**

The altitude of the District rises from about 2,000 feet above sea level at the western end of the valley to about 5,000 feet at the eastern end, with average elevation of roughly 2,650 feet. The topography of the area is characterized by rolling hills separated by deeply entrenched stream beds, namely, the Yucaipa and Wilson Creeks. The District includes the incorporated cities of Yucaipa and Calimesa which are in San Bernardino and Riverside Counties respectively.

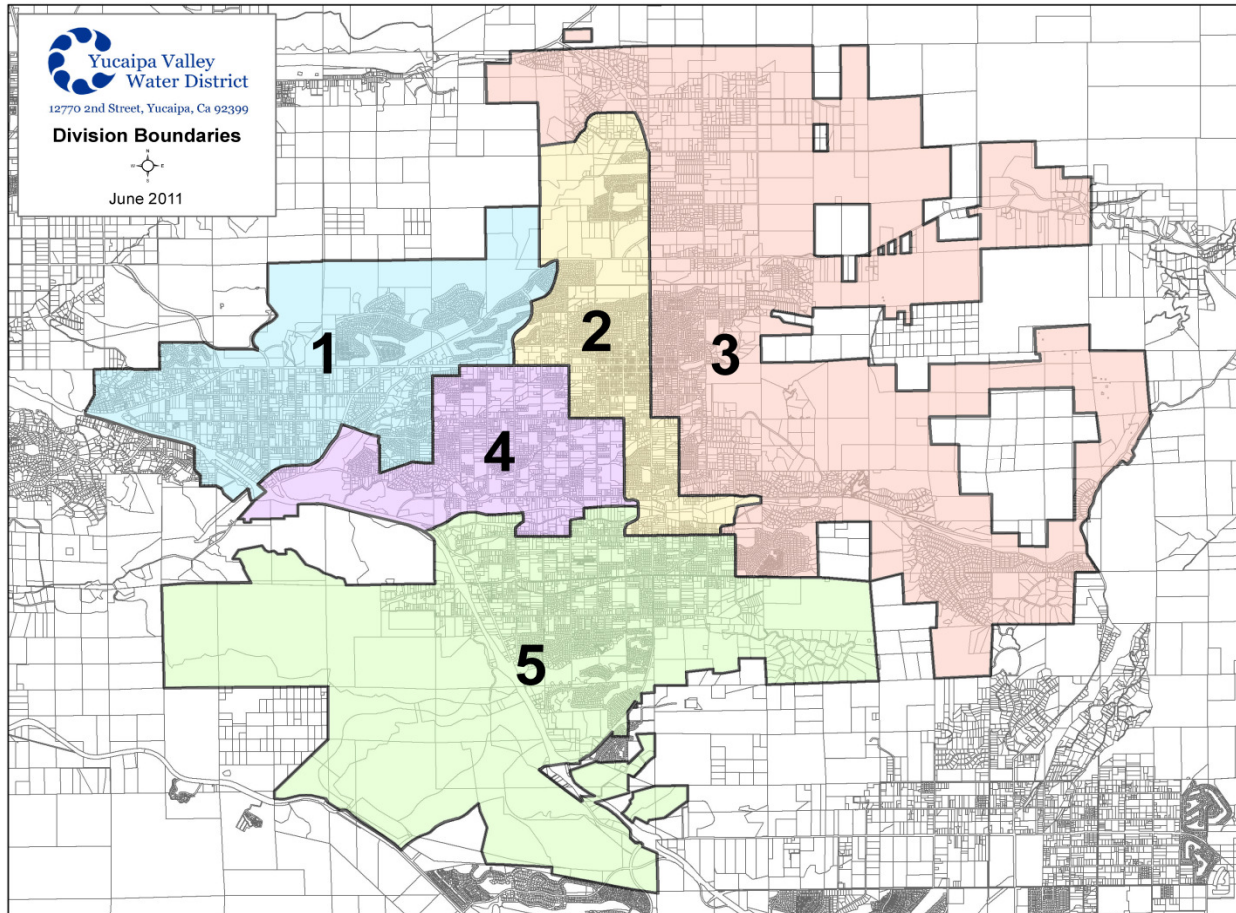
The District expects that the undeveloped land within its boundaries will continue to be developed consistent with the general plans as provided by the City of Yucaipa and the City of Calimesa. The projected population of the District in the year 2060 will be approximately 94,800, which reflects build-out of the City of Yucaipa, City of Calimesa, and the Oak Valley development. Although approximately 49.8% of the land within the boundaries of the District is currently undeveloped, less than 1% of District water sales are to agricultural water users.

### **Governance and Management**

The District is governed by a 5-member board of directors (the "Board"), the members of which are elected from five separate divisions of the District to staggered 4-year terms. The current Board members, the expiration dates of their terms and their occupations are set forth below.

Member of the Board of Directors	Division	Initial Date of Service	Expiration of Term	Occupation
Chris Mann, President	One	12/2/2016	2020	Public Relations Firm President
Bruce Granlund, Vice President	Two	12/23/1998	2022	Retired Senior D.A. Investigator
Jay Bogh, Director	Three	09/07/2005	2022	Building Firm Manager
Lonni Granlund, Director	Four	12/05/2008	2020	Property Manager/Real Estate Broker
Joyce McIntire, Director	Five	12/07/2018	2022	Retired School District Employee



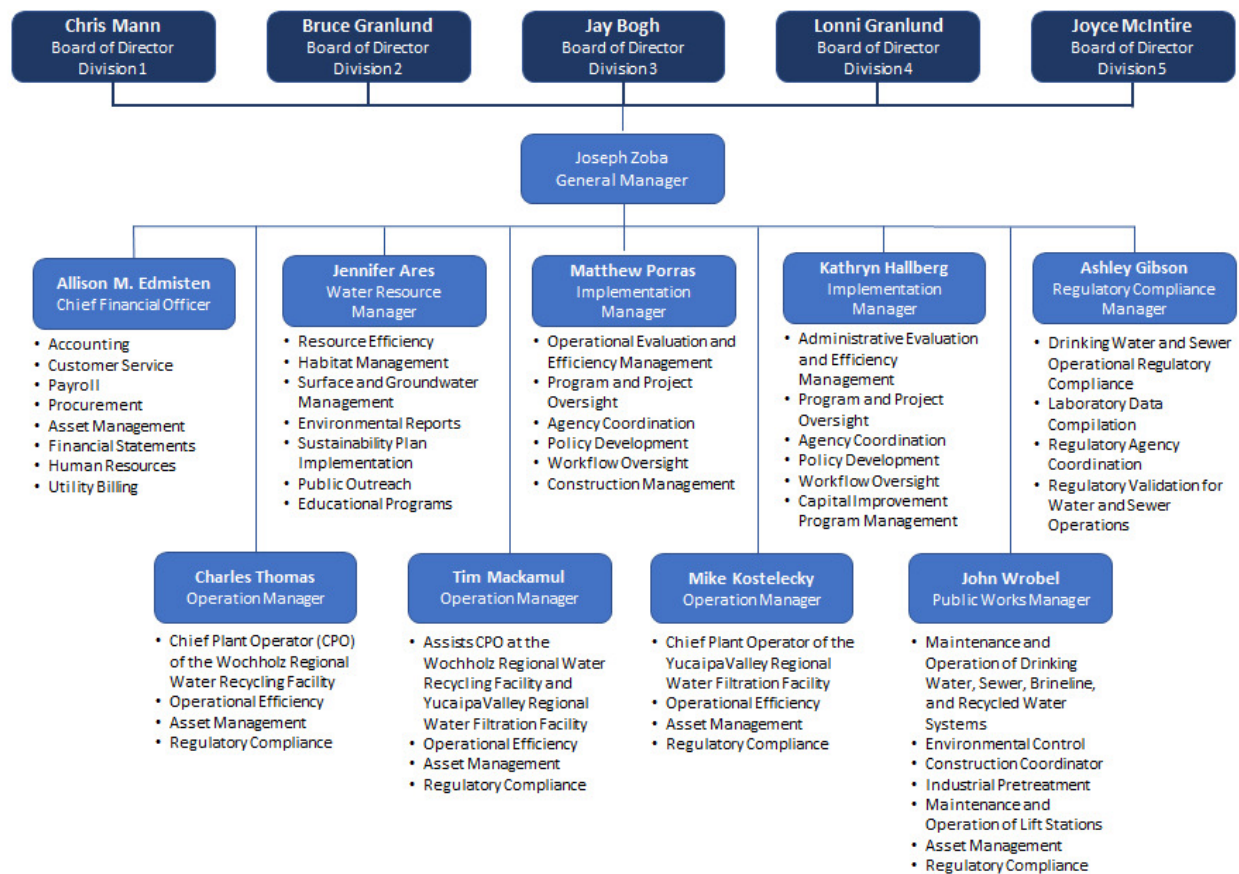


The following individuals have served as President of the Board since the District was created in 1971.

Yucaipa Valley Water District Presidents of the Board	
October 1971 to November 1973	Harold Lockwood
December 1973 to November 1975	Hank Wochholz
December 1975 to October 1977	Geno Gasponi
November 1977 to November 1979	Eve Kraft
December 1979 to December 1983	Pete Squires
January 1984 to December 1987	Fred Childs
January 1988 to November 1989	George Sardeson
November 1989 to December 1991	Hank Wochholz
January 1992 to November 1993	David Lesser
December 1993 to December 1995	Conrad Nelson
December 1995 to December 1998	Steve Copelan
January 1999 to November 2002	Conrad Nelson
December 2002 to December 2006	Bruce Granlund
December 2006 to December 2008	Tom Shalhoub
December 2008 to December 2012	Jay Bogh
January 2013 to December 2014	Bruce Granlund
December 2014 to December 2016	Lonni Granlund
December 2016 to January 2019	Jay Bogh
January 2019 to Present	Chris Mann



Day-to-day management of the District is delegated to the General Manager who works closely with an executive team who ultimately oversee all of the District's services and functions.



## DEVELOPMENT ACTIVITY WITHIN THE DISTRICT

### Facility Capacity Charges - Fiscal Year 2019

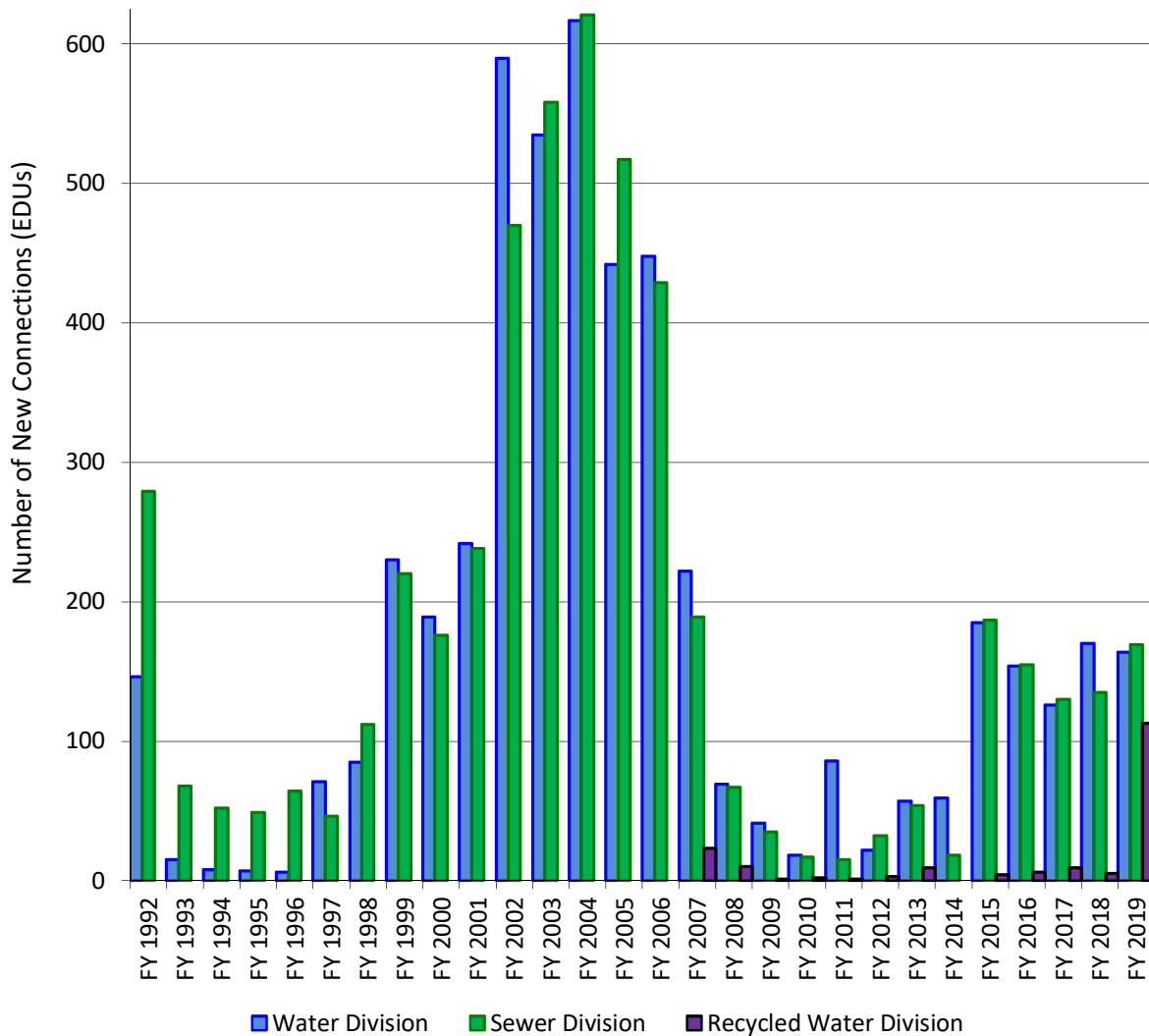
During this fiscal year, the District added 164 water connections, 169 sewer connections, and 113 recycled water connections. When compared to the development activity in the prior year, the District had 3.5% less water connections, 25.2% more sewer connections, but 2,160% more recycled water connections.





Fiscal Year	New Water Connections	New Sewer Connections	New Recycled Water Connections
2009	41	35	1
2010	18	17	2
2011	86	15	1
2012	22	32	3
2013	57	54	9
2014	59	18	0
2015	185	187	4
2016	154	155	6
2017	126	130	9
2018	170	135	5
2019	164	169	113

**Historical Water, Sewer and Recycled Water New Connections**



## MAJOR INITIATIVES AND CONTROLS

### Sustainability Initiative

California's water supply continues to be a concern due to projected population increases and limited capabilities to convey water throughout the state. On August 20, 2008 the Board of Directors adopted a *Strategic Plan for a Sustainable Future - The Integration and Preservation of Resources*. The purpose of this document was to document the proactive steps taken by the Yucaipa Valley Water District to improve the social, economic and environmental sustainability of our community. These actions have included the purchase of valuable watershed properties, protection of local water supplies and management of environmental corridors. While the decisions to embark on these actions have been generally unrelated, a look back in time indicates that the District has been progressing towards a more independent, flexible and sustainable future.

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*"The nation behaves well if it treats the natural resources as assets which it must turn over to the next generation increased, and not impaired in value."*

- **Theodore Roosevelt**

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The proactive steps taken by the District to protect and conserve our resources have been based on the concepts that: (1) resources are not limitless and therefore need to be conserved, nurtured and renewed; and (2) resources that are used to generate short-term gains result in an inefficient and inequitable consumption of resources that are not beneficial for a long-term

strategy. Both of these concepts help to guide the District to make decisions that are conservative, careful and conscious of the role we currently play in a long-term strategy to protect the community.

The purpose of pursuing a sustainability plan is twofold. First and foremost, the sustainability plan has been designed to establish the policies and guidelines necessary to protect and preserve the natural resources entrusted to the District for our customers. It is our business to maximize the use of our limited natural resources for the long-term economic growth and expansion of the local economy. In the arid southwest, the basic fuel to create and maintain a local economy is water. Secondly, the sustainability policy has been designed to provide a means to measure performance of the organization. While performance monitoring or benchmarking is not normally associated with sustainability, this document has been created with the intention that the goals and reporting requirements are designed around performance management across a wide range of disciplines.

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*"Sustainable development is . . . development that meets the needs of the present without compromising the ability of further generations to meet their own needs."*

**World Commission on Environment and Development, *Our Common Future*, 1987**

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With the use of this document the District is better equipped to:

- Identify the key challenges over the next five decades and assess the goals to overcome these challenges;
- Deal with the challenges of the future in a transparent manner involving stakeholders;
- Identify and manage risk in a reasonable and prudent manner with information, data and resources necessary to minimize the potential costs associated with certain scenarios; and
- Embark on a program to ensure that the generations that follow are provided with the necessary tools and resources to grow the community as the prior generation has done for us.

The implementation of this initiative will come about largely with the return of new development. However, the District has enacted additional measures for existing customers which largely involves the purchase of imported water to offset groundwater production by 15% beginning in January 2010.

### **Internal Control Structure**

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

### **Budgetary Control**

The District's Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. Budget adjustments are presented to the Board semi-annually for items that were not initially anticipated. The budget and reporting steps taken by the District are consistent with generally accepted accounting principles with monthly reporting of public documents for complete transparency and disclosure.

### **Investment Policy**

The Board of Directors adopts an investment policy annually that conforms to state law, District ordinance and resolutions, and prudent money management. The District is extremely conservative in our approach to investing to maximize safety and protection of public funds.

### **Audit and Financial Reporting**

State law and bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Eide Bailly LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditors' Report is attached.

# Independent Auditors' Report





## Independent Auditor's Report

Board of Directors  
Yucaipa Valley Water District  
Yucaipa, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Water Fund, Sewer Fund, Recycled Water Fund, and the aggregate remaining fund information of the Yucaipa Valley Water District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Fund, Sewer Fund, Recycled Water Fund, and aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 41 and the Schedule of Contributions on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The transmittal letter is presented for purposes of additional analysis and is not a required part of the financial statements.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California

November 18, 2019

# Management's Discussion & Analysis





This section of the Yucaipa Valley Water District's comprehensive annual financial report presents a discussion and analysis of the District's financial performance during the fiscal years ending June 30, 2018 and June 30, 2019. Please read it in conjunction with the transmittal letter at the front of this report and the District's basic financial statements following this section.

Yucaipa Valley Water District's financial statements consist of three enterprise funds: (W) drinking water fund, (S) sewer fund, and (R) recycled water fund.

### FINANCIAL HIGHLIGHTS

Based on the financial information for the fiscal year ending on June 30, 2019, the following financial highlights are noted for the Yucaipa Valley Water District.

- The District's net position increased 0.19% to \$191,582,827.
- The District's total revenues decreased 0.34% to \$25,617,825.
- The District's total expenses increased 3.54% to \$31,905,254.
- The capital contributions to the District totaled \$6,647,936 for the fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Yucaipa Valley Water District's basic financial statements. The District's basic financial statements are comprised of three components: Financial Statements, Notes to the Financial Statements, and Required Supplementary Information.

***The District's Basic Financial Statements*** are comprised of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how Net Position changed during the fiscal year.

The *Statement of Cash Flows* presents information about the cash receipts and cash payments of the District during the fiscal year. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the District's financial position of its cash and its non-cash investing, capital and related financing transactions during the year.

***Notes to the Basic Financial Statements*** provides additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes are included immediately following the financial statements within this report.

FINANCIAL ANALYSIS - STATEMENT OF NET POSITION

The following table summarizes the changes in the Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position as of June 30, 2019.

	Water Enterprise				Sewer Enterprise				Recycled Water Enterprise			
	2019	2018	Change	% Change	2019	2018	Change	% Change	2019	2018	Change	% Change
Assets												
Current Assets	\$ 8,050,028	\$ 8,569,094	\$ (519,066)	(6.06%)	\$ 7,209,847	\$ 7,577,832	\$ (367,985)	(6.06%)	\$ 545,500	\$ 858,725	\$ (313,225)	(36.48%)
Net Capital Assets	101,550,102	102,940,901	(1,390,799)	(1.35%)	120,184,808	123,124,449	(2,939,641)	(2.39%)	23,886,667	24,661,325	(774,658)	(3.14%)
Other Assets	1,131,328	1,117,083	14,245	1.28%	893,163	893,163	- -	0.00%	1,922,101	607,498	1,314,603	216.40%
Total Assets	110,731,458	112,627,078	(1,895,620)	(1.68%)	128,287,818	131,595,444	(3,307,626)	(2.51%)	26,354,268	26,127,548	226,720	0.87%
Deferred Outflows of Resources												
Deferred Outflow of Resources to Pensions	951,548	1,243,383	(291,835)	(23.47%)	710,514	893,368	(182,854)	(20.47%)	136,707	140,507	(3,800)	(2.70%)
Total Assets and Deferred Outflows	111,683,006	113,870,461	(2,187,455)	(1.96%)	128,998,332	132,488,812	(3,490,480)	(2.64%)	26,490,975	26,268,055	222,920	0.85%
	2019	2018	Change	% Change	2019	2018	Change	% Change	2019	2018	Change	% Change
Liabilities												
Current Liabilities	2,818,903	3,605,471	(786,568)	(21.82%)	4,079,177	4,161,501	(82,324)	(1.98%)	7,650	34,257	(26,607)	(77.67%)
Long-term Liabilities	31,972,674	33,604,871	(1,632,197)	(4.86%)	36,055,960	39,172,684	(3,116,724)	(7.96%)	469,383	402,612	66,771	16.58%
Total Liabilities	34,791,577	37,210,342	(2,418,765)	(6.50%)	40,135,137	43,334,185	(3,199,048)	(7.4%)	477,033	436,869	40,164	9.19%
Deferred Inflows of Resources												
Deferred Amounts Related to Pensions	98,256	231,292	(133,036)	(57.52%)	73,367	166,183	(92,816)	(55.85%)	14,116	26,137	(12,021)	(45.99%)
Total Liabilities and Deferred Inflows	34,889,833	37,441,634	(2,551,801)	(6.80%)	40,208,504	43,500,368	(3,291,864)	(7.57%)	491,149	463,006	28,143	6.08%
Net Position												
Net Investment in Capital Assets, Net of Related Debt	72,261,052	72,366,486	(105,434)	(0.15%)	83,864,694	83,928,508	(63,814)	(0.08%)	23,886,667	24,661,325	(774,658)	(3.14%)
Restricted Funds	1,131,328	1,117,083	14,245	1.28%	893,163	893,163	0	0.00%	1,922,101	607,498	1,314,603	216.40%
Unrestricted Funds	3,400,793	2,945,258	455,535	15.47%	4,031,971	4,166,773	(134,802)	(3.24%)	191,058	536,226	(345,168)	(64.37%)
Total Net Position	76,428,827	76,428,827	(2,628,279)	(3.32%)	88,789,828	88,988,444	(198,616)	(0.22%)	25,999,826	25,805,049	194,777	0.75%
Total Liabilities and Net Position	111,318,660	113,870,461	2,551,801	(2.24%)	128,998,332	132,488,812	(3,490,480)	(2.63%)	26,490,975	26,268,055	222,920	0.85%

**Statement of Net Position** – The District's net position increased between fiscal years 2017-18 and 2018-19, increasing from \$191,222,320 to \$191,582,827. The change can be seen in the condensed Statement of Net Position below as a \$360,507 increase in net position.

As of July 1, 2014, and the District's adoption of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. These pronouncements resulted in a restatement of the District's beginning net position and inclusion of several new accounts on the District's financial statements. These new accounts include a \$6,176,087 net pension liability, \$185,739 in deferred inflow of resources (deferred amount on pensions) and \$1,798,769 in deferred outflows of resources from pension contributions made after the measurement date and amortization. These are further discussed in Defined Benefit Pension Plans in the accompanying pages.

The decrease in current assets for water is primarily attributed to the reduced revenue for water sales, compared to the most recent prior year. However, the sales for 2018-19 are more in line with the revenue from 2016-17. The decrease in sewer and recycled current assets is attributed to the increased expenditures and operations in the funds. The sewer fund had an increase in professional fees as a result of the MORE project as well as the Calimesa Lakes Recharge Project. The recycled fund continues to grow and an increased amount of District staff was allocated to this fund in 2018-19.

The decrease in net capital water, sewer and recycled assets is primarily attributed to the depreciation expenses for the year.

## **FINANCIAL ANALYSIS - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The following table summarizes changes in Net Position for the year ended June 30, 2019.

**Statement of Revenues, Expenses and Changes in Net Position**

	2019	2018	Change	% Change
<b>Operating Revenues</b>				
Water Services	\$ 9,479,417	\$ 9,922,660	\$(443,243)	-4.47%
Sewer Services	11,436,177	11,522,679	(86,502)	-0.75%
Recycled Services	802,468	530,374	272,094	51.30%
Interfund Services Provided	202,500	189,000	13,500	7.14%
Other Revenue	2,625	1,800	825	45.83%
Total Operating Revenues	21,923,187	22,166,513	(243,326)	-1.10%
<b>Non-Operating Revenues</b>				
Interest Income	192,807	196,151	(3,344)	-1.70%
Property Taxes	3,477,140	3,276,660	200,480	6.12%
Other Income	24,691	65,965	(41,274)	-62.57%
Total Non-Operating Revenues	3,694,638	3,538,776	155,862	4.40%
<b>Total Revenues</b>	<b>25,617,825</b>	<b>25,705,289</b>	<b>(87,464)</b>	<b>-0.34%</b>
<b>Operating Expenses</b>				
Salaries & Benefits - W	4,154,337	4,488,038	(333,701)	-7.44%
Salaries & Benefits - S	3,232,991	2,910,573	322,418	11.08%
Salaries & Benefits - R	930,326	731,583	198,743	27.17%
Operating Expenses - W	5,682,200	5,930,850	(248,650)	-4.19%
Operating Expenses - S	5,908,280	4,756,529	1,151,751	24.21%
Operating Expenses - R	311,399	385,657	(74,258)	-19.25%
Water Purchases - W	1,092,040	1,372,267	(280,227)	-20.42%
Operating Expenses before Depreciation	21,311,573	20,575,497	736,076	3.58%
Depreciation & Amortization - W	3,483,185	3,318,457	164,728	4.96%
Depreciation & Amortization - S	4,338,068	4,104,399	233,669	5.69%
Depreciation & Amortization - R	874,938	794,665	80,273	10.10%
Total Operating Expenses	30,007,764	28,793,018	1,214,746	4.22%
<b>Non-Operating Expenses</b>				
(Gain)/Loss on Asset Disposal	-	-	-	100.00%
Interest Expense - W	990,789	1,044,348	(53,559)	-5.13%
Interest Expense - S	906,701	977,041	(70,340)	-7.20%
Total Non-Operating Expenses	1,897,490	2,021,389	(123,899)	-6.13%
<b>Total Expenses</b>	<b>31,905,254</b>	<b>30,814,407</b>	<b>1,090,847</b>	<b>3.54%</b>



**Statement of Revenues, Expenses and Changes in Net Position**

	2019	2018	Change	% Change
Income (Loss) Before Contributions - W	\$ (2,301,590)	\$ (2,978,538)	\$ 676,948	-22.73%
Income (Loss) Before Contributions - S	(2,866,014)	(900,526)	(1,965,488)	218.26%
Income (Loss) Before Contributions - R	(1,119,825)	(1,230,054)	110,229	-8.96%
Total Income (Loss) Before Contributions	(6,287,429)	(5,109,118)	(1,178,311)	23.06%
Contributions				
Capital Contributions - W	2,665,936	350,259	2,315,677	661.13%
Capital Contributions - S	2,667,398	841,462	1,825,936	217.00%
Capital Contributions - R	1,314,602	88,127	1,226,475	1391.71%
	6,647,936	1,279,848	5,368,088	2269.84%
Change in Net Position - W	364,346	(2,628,279)	2,992,625	-113.86%
Change in Net Position - S	(198,616)	(59,064)	(139,552)	236.27%
Change in Net Position - R	194,777	(1,141,927)	1,336,704	-117.06%
Beginning Net Position	191,222,320	195,051,590	(3,829,270)	-1.96%
<b>Ending Net Position</b>	<b>\$ 191,582,827</b>	<b>\$ 191,222,320</b>	<b>\$ 360,507</b>	<b>0.19%</b>



The Statement of Revenues, Expenses and Changes in Net Position provides the nature and source of these changes. As can be seen in the preceding table, the loss before capital contributions of \$6,287,429 and capital contributions of \$6,647,936 offset the increase in Net Position of \$364,346 in Fiscal Year 2019.

On January 17, 2014, Governor Brown issued a proclamation of a state of emergency under the California Emergency Services Act based on drought conditions. On April 25, 2014, Governor Brown issued a proclamation of a continued state of emergency based on continued drought. Yucaipa Valley Water District has taken steps over the years to reduce drinking water use by implementing an extensive recycled water system and asking customers to cut back usage on potable water. The drought restrictions were reduced in 2017 which resulted in increased water services revenue.

The sewer fund experienced an increase in operating expenses as a result of the MORE project as well as the Calimesa Lakes Recharge Project.

During fiscal year 2018-19 additional staff was allocated from the water fund to the sewer and recycled water funds. In addition, the water fund experienced a decrease in operating expenses as a result of one time projects from the prior fiscal year. The water fund also purchased less imported water in 2018-19 compared to the prior fiscal year. Finally, all funds experienced an increase in capital contributions compared to the prior fiscal year.

## CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

At the end of Fiscal Year 2019, the District had invested \$245,621,580 in a broad range of infrastructure as shown below.

### Schedule of Capital Assets

	2019	2018	Change	% Change
Non-Depreciable Assets				
Land & Easements	\$ 5,892,830	\$ 5,587,305	\$ 305,525	5.47%
Secured Rights	9,687,619	9,687,619	-	0.00%
Construction in Progress	7,274,352	21,439,892	(14,165,540)	-66.07%
Total Non-Depreciable Assets	22,854,801	36,714,816	(13,860,015)	-37.75%
Depreciable Assets				
Structures & Improvements	347,896,302	330,802,869	17,093,433	5.17%
Equipment	6,669,669	6,450,041	219,628	3.41%
Total Depreciable Assets	354,565,971	337,252,910	17,313,061	5.13%
Less Accumulated Depreciation	(131,799,192)	(123,241,051)	(8,558,141)	6.94%
Net Depreciable Assets	222,766,779	214,011,859	8,754,920	4.09%
<b>Total Capital Assets, Net</b>	<b>\$ 245,621,580</b>	<b>\$ 250,726,675</b>	<b>\$ (5,105,095)</b>	<b>-2.04%</b>

As of June 30, 2019, land increased by \$305,525, in the sewer fund due to a property purchase near the wastewater plant. Construction in Progress decreased \$14,165,540 amongst the water, sewer and recycled water funds combined. These projects include reservoir 12.4, the belt press rehab, digesters, the fill station and the 12.4 booster. This decrease in Construction in Progress results in the increase in Structures and Improvements.

Additional information on the District's capital assets can be found in Note 3 of this report.



Long-term obligations, including the current portion, total \$75,403,747 as of June 30, 2019, a decrease of \$5,577,649 from \$80,981,396 as of June 30, 2018. The long-term obligations were comprised of compensated absences, water revenue bonds and sewer fund state revolving fund (SRF) loans for the WRWRF plant expansion, Regional Brineline Extension, (WISE) Wochholz Improved Salinity Effluent Project, Non-Potable Reservoir NR-10.3.1 project and the Crow Street Recycled Project.

<b>Schedule of Liabilities</b>				
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Long Term Obligations:				
Compensated absences	\$ 828,561	\$ 875,336	\$ (46,775)	-5.34%
Refunding Revenue Bonds - Water	28,119,050	29,459,415	(1,340,365)	-4.55%
State Revolving Fund Loan - Sewer	33,374,319	36,320,096	(2,945,777)	-8.11%
Net Pension Liability	6,176,087	6,525,320	(349,233)	-5.35%
Total Long Term Obligations	<u>68,498,017</u>	<u>73,180,167</u>	<u>(4,682,150)</u>	<u>-6.40%</u>
Current Portion of Obligations:				
Compensated Absences	405,002	431,780	(26,778)	-6.20%
Refunding Revenue Bonds - Water	1,170,000	1,115,000	55,000	4.93%
State Revolving Fund Loan - Sewer	2,945,795	2,875,845	69,950	2.43%
Other Current Liabilities	2,384,933	3,378,604	(993,671)	-29.41%
Total Current Obligations	<u>6,905,730</u>	<u>7,801,229</u>	<u>(895,499)</u>	<u>-11.48%</u>
<b>Total Liabilities</b>	<b><u>\$ 75,403,747</u></b>	<b><u>\$ 80,981,396</u></b>	<b><u>\$ (5,577,649)</u></b>	<b><u>-6.89%</u></b>

Additional information on the District's long-term obligations can be found in Notes 4 through 12 of this report.

### Requests for Information

This financial report is designed to provide a general overview of the financial position of the Yucaipa Valley Water District for all those with an interest in the government's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Allison M. Edmisten, Chief Financial Officer at 12770 Second Street, Yucaipa, California 92399.

# Financial Statements



# YUCAIPA VALLEY WATER DISTRICT

## STATEMENT OF NET POSITION PROPRIETARY FUNDS JUNE 30, 2019

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 4,558,160	\$ 5,887,113	\$ 452,741	\$ 10,898,014
Accounts receivable, net	996,955	1,294,017	87,126	2,378,098
Taxes and assessments receivable	61,013			61,013
Interest receivable	25,347	25,347	5,633	56,327
Inventory	1,162,397			1,162,397
Prepayments and deposits	1,246,156	3,370		1,249,526
Total Current Assets	8,050,028	7,209,847	545,500	15,805,375
Noncurrent Assets:				
Restricted investments	1,131,328	893,163	1,922,101	3,946,592
Capital assets not being depreciated	10,323,707	12,072,484	458,610	22,854,801
Capital assets being depreciated, net	91,226,395	108,112,324	23,428,057	222,766,776
Total Noncurrent Assets	102,681,430	121,077,971	25,808,768	249,568,169
<b>TOTAL ASSETS</b>	110,731,458	128,287,818	26,354,268	265,373,544
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amounts related to pensions	951,548	710,514	136,707	1,798,769
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	315,752	389,307	7,650	712,709
Customer deposits	115,790			115,790
Developer/construction deposits	558,758			558,758
Accrued interest payable	383,955	613,721		997,676
Current portion of long-term liabilities:				
Compensated absences	274,648	130,354		405,002
Certificates of participation	1,170,000			1,170,000
State revolving fund loans		2,945,795		2,945,795
Total Current Liabilities	2,818,903	4,079,177	7,650	6,905,730
Long-Term Liabilities:				
Compensated absences	586,474	242,087		828,561
Certificates of participation	28,119,050			28,119,050
State revolving fund loans		33,374,319		33,374,319
Net pension liability	3,267,150	2,439,554	469,383	6,176,087
Total Long-Term Liabilities	31,972,674	36,055,960	469,383	68,498,017
<b>TOTAL LIABILITIES</b>	34,791,577	40,135,137	477,033	75,403,747
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred amounts related to pensions	98,256	73,367	14,116	185,739
<b>NET POSITION</b>				
Net investment in capital assets	72,261,052	83,864,694	23,886,667	180,012,413
Restricted for:				
Debt service		893,163		893,163
Capital projects	1,131,328		1,922,101	3,053,429
Unrestricted	3,400,793	4,031,971	191,058	7,623,822
<b>TOTAL NET POSITION</b>	\$ 76,793,173	\$ 88,789,828	\$ 25,999,826	\$ 191,582,827

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

# YUCAIPA VALLEY WATER DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
<b>OPERATING REVENUES</b>				
Charges for current services	\$ 9,479,417	\$ 11,436,177	\$ 802,468	\$ 21,718,062
Interfund services provided	202,500			202,500
Other revenue	285	2,340		2,625
Total Operating Revenues	9,682,202	11,438,517	802,468	21,923,187
<b>OPERATING EXPENSES</b>				
Salaries and employee benefits	4,154,337	3,232,991	930,326	8,317,654
Electrical power	1,444,187	1,350,518	100,127	2,894,832
Water purchases	1,092,040			1,092,040
Administrative services	630,518	606,388	32,086	1,268,992
Operating supplies	279,955	876,858	5,690	1,162,503
Maintenance and repairs	1,897,419	925,685	36,671	2,859,775
Crystal Creek Water Treatment	618,228			618,228
Brineline charges		413,813		413,813
Depreciation	3,483,185	4,338,068	874,938	8,696,191
Insurance	100,173	130,327	21,178	251,678
Professional fees	565,163	1,259,262	110,179	1,934,604
Other	146,557	345,429	5,468	497,454
Total Operating Expenses	14,411,762	13,479,339	2,116,663	30,007,764
Operating Income (Loss)	(4,729,560)	(2,040,822)	(1,314,195)	(8,084,577)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	94,520	80,417	17,870	192,807
Property taxes	3,300,640		176,500	3,477,140
Other income	23,599	1,092		24,691
Interest expense	(990,789)	(906,701)		(1,897,490)
Total Non-Operating Revenues (Expenses)	2,427,970	(825,192)	194,370	1,797,148
Income (Loss) Before Contributions	(2,301,590)	(2,866,014)	(1,119,825)	(6,287,429)
<b>CONTRIBUTIONS</b>				
Capital contributions	2,665,936	2,667,398	1,314,602	6,647,936
Change in Net Position	364,346	(198,616)	194,777	360,507
Net Position, Beginning of Year	76,428,827	88,988,444	25,805,049	191,222,320
Net Position, End of Year	\$ 76,793,173	\$ 88,789,828	\$ 25,999,826	\$ 191,582,827

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

# YUCAIPA VALLEY WATER DISTRICT

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 9,378,035	\$ 11,735,592	\$ 786,985	\$ 21,900,612
Receipts (payments) from interfund services provided	202,500	(202,500)		
Payments to suppliers	(7,425,348)	(5,783,685)	(338,006)	(13,547,039)
Employment related payments	(4,286,892)	(3,341,156)	(871,776)	(8,499,824)
Net Cash Provided by/(Used for) Operating Activities	(2,131,705)	2,408,251	(422,797)	(146,251)
<b>CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES</b>				
Capital contributions	2,665,936	2,667,398	1,314,602	6,647,936
Cash paid for capital assets	(2,092,386)	(1,398,427)	(100,280)	(3,591,093)
Principal paid on capital debt	(1,115,000)	(2,875,827)		(3,990,827)
Interest paid on capital debt	(1,179,738)	(957,006)		(2,136,744)
Net Cash Provided by/(Used for) Capital and Related Financing Activities	(1,721,188)	(2,563,862)	1,214,322	(3,070,728)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Property taxes received	3,324,492		176,500	3,500,992
Other receipts	23,599	1,092		24,691
Net Cash Provided by Non-Capital Financing Activities	3,348,091	1,092	176,500	3,525,683
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	107,223	93,120	20,693	221,036
Net Increase/(Decrease) in Cash and Cash Equivalents	(397,579)	(61,399)	988,718	529,740
Balances, Beginning of Year	6,087,067	6,841,675	1,386,124	14,314,866
Balances, End of Year	\$ 5,689,488	\$ 6,780,276	\$ 2,374,842	\$ 14,844,606
<b>Reconciliation to Statement of Net Position:</b>				
Cash and investments	\$ 4,558,160	\$ 5,887,113	\$ 452,741	\$ 10,898,014
Restricted cash and investments - Non-current	1,131,328	893,163	1,922,101	3,946,592
Total Cash and Investments	\$ 5,689,488	\$ 6,780,276	\$ 2,374,842	\$ 14,844,606

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



# YUCAIPA VALLEY WATER DISTRICT

## STATEMENT OF CASH FLOWS, Continued PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
RECONCILIATION OF OPERATING Income (Loss) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (loss)	\$ (4,729,560)	\$ (2,040,822)	\$ (1,314,195)	\$ (8,084,577)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	3,483,185	4,338,068	874,938	8,696,191
Change in assets and liabilities:				
Receivables, net	295,391	297,075	(15,483)	576,983
Compensated absences	4,321	(77,874)		(73,553)
Prepayments and deposits	(245,126)	(3,192)		(248,318)
Developer and customer deposits	(397,058)			(397,058)
Inventory	20,422			20,422
Accounts and other payables (non-capital)	(426,404)	(74,713)	(26,607)	(527,724)
Net pension liability	(295,675)	(120,329)	66,771	(349,233)
Change in deferred outflows of resources related to pensions	291,835	182,854	3,800	478,489
Change in deferred inflows of resources related to pensions	(133,036)	(92,816)	(12,021)	(237,873)
Net Cash Provided by/(Used for) Operating Activities	<u>\$ (2,131,705)</u>	<u>\$ 2,408,251</u>	<u>\$ (422,797)</u>	<u>\$ (146,251)</u>

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



# YUCAIPA VALLEY WATER DISTRICT

## STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES AGENCY FUND JUNE 30, 2019

	SCIP R-12.4 Reservoir Agency Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,297,349
<b>LIABILITIES</b>	
Due to other governments	\$ 1,297,349

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





# Notes to the Financial Statements



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

Yucaipa Valley Water District (the District) is a special-purpose government district providing water distribution and sewer collection and treatment for consumers within its service area. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### B. Basis of Presentation

The District has the following major proprietary funds:

- Water – This fund accounts for the activities of the District's drinking water supply system.
- Sewer – This fund accounts for the activities of the District's sewage treatment plant, pumping stations, and collection systems.
- Recycled Water – This fund accounts for the activities of the District's recycled water supply system.

The SCIP R-12.4 Reservoir agency fund utilizes the accrual basis of accounting for reporting its assets and liabilities. This fund is used to account for receipts and disbursements associated with Assessment District AD-14-01, which is administered by, but is not the liability of, the District.

#### C. Basis of Accounting

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes apply. Property taxes are collected for the District by the Counties of San Bernardino and Riverside. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses include the costs of sales and services, the costs of employee benefits, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**YUCAIPA VALLEY WATER DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**D. Capital Assets**

Capital assets purchased or constructed are carried at cost. Constructed costs include labor, materials and construction period interest expense (net of interest income, where applicable). Capitalization threshold is \$5,000. Contributed assets are stated at acquisition value at the time received by the District. Depreciation is calculated on the straight-line method over the following estimated useful lives of the assets:

Structures and improvements	10 – 50 years
Equipment	4 – 10 years

**E. Restricted Investments**

Various resources of the District are limited as to their use by law or by debt covenants and are classified on the balance sheet as restricted investments. Undisbursed debt proceeds are restricted for repayment of the debt and project costs. Also, fees imposed on new real estate development are restricted by law for the construction of capital improvements which benefit the development projects.

**F. Inventory**

Inventory is stated at the lower of cost, using the average cost method, or market.

**G. Cash and Cash Equivalents**

All cash and investments are held in the District's cash management pool. Therefore, for purposes of the statement of cash flows, the District considers the entire pooled cash and investment balance to be cash and cash equivalents.

**H. Investments**

Investments are reported at fair value, which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: 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. Management reviews investments for events that might affect fair value measurements of investments on a monthly basis. The evaluation is performed at the lowest level of identifiable unit of account.



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (*Continued*)

#### I. Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1 percent of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to entities based on complex formulas. The property tax calendar for San Bernardino and Riverside County is as follows:

Lien date	January 1
Levy date	July 1
Due date	November 1 and February 1
Collection dates	December 10 and April 10

#### J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### K. Uncollectible Accounts

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. As of June 30, 2019, this allowance was estimated at \$20,000 in the Water Fund and \$15,000 in the Sewer Fund.

#### L. Credit/Market Risk

The District provides water, sewer, and recycled water services to local residential and commercial customers. As part of normal operating practices, credit is granted to local customers, on an unsecured basis.

#### M. Use of Restricted Resources

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

#### N. Net Position

*Net investment in capital assets* consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets.

*Restricted net position* consists of those restricted assets reduced by liabilities related to those assets.

*Unrestricted net position* is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (*Continued*)

#### O. Pensions

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

#### P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then. The government only has one item that qualifies for reporting in this category. It is the deferred outflow related to pensions which represents the District's pension contributions made subsequent to the measurement date, change in proportion and the difference between projected and actual earnings on investments.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time. The government has only one type of item, deferred amounts related to pensions. This item represents the change in proportion and the change in assumptions used in the pension calculation.

#### Q. New Accounting Pronouncements

##### Effective in this Fiscal Year

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not determined the effect on the financial statements.

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

#### Q. New Accounting Pronouncements, (Continued)

##### Effective in Future Fiscal Years

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the effect on the financial statements.

GASB Statement No. 90 – In September 2018, the GASB issues Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2018. The District has not determined the effect on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. The district has not determined the effect on the financial statements.

### NOTE 2 – CASH AND INVESTMENTS

Cash and investments are classified as the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 10,898,014
Restricted investments - Non-current	3,946,592
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>1,297,349</u>
Total Cash and Investments	<u><u>\$ 16,141,955</u></u>

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 2 – CASH AND INVESTMENTS, (Continued)

Cash and investments as of June 30, 2019, consist of the following:

Petty cash	\$ 800
Cash	4,605,142
Investments	11,536,013
Total Cash and Investments	<u>\$ 16,141,955</u>

### Investments Authorized by the California Government Code and the Yucaipa Valley Water District's Investment Policy

The table below identifies the investment types that are authorized for the Yucaipa Valley Water District by the California Government Code and the District's policy, whichever is more restrictive. The table also identifies certain provisions of the California Government Code 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 Yucaipa Valley Water District, rather than the general provisions of the California Government Code.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Money Market Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

### Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreement, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of the debt agreement that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Repurchase Agreements	365 days	None	None
Negotiable Certificates of Deposit	None	30%	None
Money Market Mutual Funds	None	None	None

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 2 – CASH AND INVESTMENTS, (Continued)

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Yucaipa Valley Water District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	Maturity 12 Months or Less
LAIF	\$ 10,287,445	\$ 10,287,445
U.S. Treasury Bills	490,795	490,795
Money Market Funds	757,773	757,773
Total	<u>\$ 11,536,013</u>	<u>\$ 11,536,013</u>

#### Disclosures Relating to 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. Presented below is the rating as of year-end for each investment type:

	Fair Value	S&P Rating at June 30, 2018
LAIF	\$ 10,287,445	Unrated
U.S. Treasury Bills	490,795	AA+
Money Market Funds	757,773	AAAm
Total	<u>\$ 11,536,013</u>	



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 2 – CASH AND INVESTMENTS, (*Continued*)

#### **Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Yucaipa Valley Water District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. Bank deposits are covered by the federal depository insurance (FDIC) for the first \$250,000. As of June 30, 2019, the District has \$3,661,183 of cash in excess of the FDIC limit. The uninsured deposits were held by financial institutions, which are legally required by the California Government Code to collateralize the District's deposits as noted above.

#### **Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF has a portion of the pool invested in structured notes and asset backed securities. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals to and from LAIF are transferred on the basis of \$1 and not fair value. Accordingly, under the fair value hierarchy, LAIF is valued based on inputs not categorized as level 1, level 2, or level 3.

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 2 – CASH AND INVESTMENTS, (Continued)

#### Fair Value Hierarchy

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The district has the following recurring fair value measurements as of year-end.

As of June 30, 2019:

		Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level	Fair Value			
U.S Treasury Bills	\$ 490,795	\$ 490,795	\$ -	\$ -
Investments not Subject to Fair Value Hierarchy				
Local Agency Investment Fund	10,287,445			
Money Market Funds	757,773			
Total Investments	\$ 11,536,013			

In determining fair value, the district's custodians use various methods including market and income approaches. Based on these approaches, the district's custodians utilize certain assumptions that market participants would use in pricing the asset or liability. The district's custodians utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Various inputs are used in determining the value of the district's investments and other financial instruments. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. These inputs are summarized in the three broad levels: Level 1 - quoted prices in active markets for identical investments, Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the district's own assumptions in determining the fair value of investments).

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 3 – CAPITAL ASSETS

The following tables summarize capital asset activity during 2018-2019:

Water Fund	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land and easements	\$ 4,111,106			\$ 4,111,106
Water rights	432,941			432,941
Construction in progress	12,261,572	\$ 1,784,154	\$ (8,266,065)	5,779,661
Total capital assets not being depreciated	16,805,619	1,784,154	(8,266,065)	10,323,707
Capital assets being depreciated:				
Structures and improvements	130,636,540	8,354,672		138,991,212
Equipment	4,710,053	219,628		4,929,681
Total capital assets being depreciated	135,346,593	8,574,300		143,920,893
Less accumulated depreciation for:				
Structures and improvements	(45,392,240)	(3,256,733)		(48,648,973)
Equipment	(3,819,071)	(226,452)		(4,045,523)
Total accumulated depreciation	(49,211,311)	(3,483,185)		(52,694,496)
Total capital assets being depreciated, net	86,135,282	5,091,115		91,226,395
Water Fund capital assets, net	\$ 102,940,901	\$ 6,875,269	\$ (8,266,065)	\$ 101,550,104

Depreciation expense was \$3,483,185 for the year ended June 30, 2019.



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 3 – CAPITAL ASSETS, (Continued)

Sewer Fund	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land and easements	\$ 1,476,199	\$ 305,525		\$ 1,781,724
Water rights	9,254,678			9,254,678
Construction in progress	2,735,776	805,000	\$ (2,504,694)	1,036,082
Total capital assets not being depreciated	13,466,653	1,110,525	(2,504,694)	12,072,484
Capital assets being depreciated:				
Structures and improvements	174,704,728	2,792,595	(138,050)	177,359,273
Equipment	1,592,988			1,592,988
Total capital assets being depreciated	176,297,716	2,792,595	(138,050)	178,952,261
Less accumulated depreciation for:				
Structures and improvements	(65,218,708)	(4,312,737)	138,050	(69,393,395)
Equipment	(1,421,212)	(25,331)		(1,446,543)
Total accumulated depreciation	(66,639,920)	(4,338,068)	138,050	(70,839,938)
Total capital assets being depreciated, net	109,657,796	(1,545,473)		108,112,323
Sewer Fund capital assets, net	<u>\$ 123,124,449</u>	<u>\$ (434,948)</u>	<u>\$ (2,504,694)</u>	<u>\$ 120,184,807</u>

Depreciation expense was \$4,338,068 for the year ended June 30, 2019.



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 3 – CAPITAL ASSETS, (Continued)

Recycled Water Fund	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated				
Construction in progress	\$ 6,442,544	\$ 67,560	\$ (6,051,495)	\$ 458,610
Total capital assets not being depreciated	6,442,544	67,560	(6,051,495)	458,610
Capital assets being depreciated:				
Structures and improvements	25,461,601	6,084,216		31,545,817
Equipment	147,000			147,000
Total capital assets being depreciated	25,608,601	6,084,216		31,692,817
Less accumulated depreciation for:				
Structures and improvements	(7,316,320)	(860,238)		(8,176,558)
Equipment	(73,500)	(14,700)		(88,200)
Total accumulated depreciation	(7,389,820)	(874,938)		(8,264,758)
Total capital assets being depreciated, net	18,218,781	5,209,278		23,428,057
Recycled Water Fund capital assets, net	\$ 24,661,325	\$ 5,276,838	\$ (6,051,495)	\$ 23,886,667

Depreciation expense was \$874,938 for the year ended June 30, 2019.

### NOTE 4 – REFUNDING REVENUE BONDS SERIES 2015 A

In 2015, the District sold certificates of participation in the amount of \$30,810,000 to refund the 2004 Certificates of Participation and to pay delivery costs of the certificates.

Certificates began maturing on September 1, 2015 with semi-annual interest payments due March 1 and September 1 at various interest rates from 3.00 to 5.00 percent. Principal payments are due annually September 1 at various amounts from \$980,000 to \$2,240,000. The final principal payment of the certificates is scheduled for September 1, 2034. The bonds are subject to optional redemption as a whole or in part on any date in order of maturity as directed by the District. The District has covenanted to provide certain financial information and operating data annually not later than 270 days following the end of the fiscal year. See Note 12 for revenues pledged. The Bonds are recorded in the Water Fund.

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 4 – REFUNDING REVENUE BONDS SERIES 2015 A, (Continued)

Maturities of the revenue refunding bonds are as follows:

Fiscal Year Ending	2015 Refunding Revenue Bonds Series A		
	Principal	Interest	Total
2020	\$ 1,170,000	\$ 1,122,612	\$ 2,292,612
2021	1,230,000	1,062,612	2,292,612
2022	1,290,000	1,006,062	2,296,062
2023	1,335,000	960,237	2,295,237
2024	1,390,000	904,462	2,294,462
2025-2029	8,060,000	3,401,710	11,461,710
2030-2034	9,905,000	1,562,692	11,467,692
2035	2,240,000	56,000	2,296,000
Total	<u>\$ 26,620,000</u>	<u>\$ 10,076,387</u>	<u>\$ 36,696,387</u>

### NOTE 5 – STATE REVOLVING FUND LOAN - 2006

In August 2006, the District entered into a loan agreement with the State of California Water Resources Control Board to provide funding for the expansion and modification of the Henry N. Wochholz Wastewater Treatment Plant. The maximum amount of \$44,748,356 has been drawn. The loan accrues interest at a rate of 2.4 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred in September 2009. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2006 State Revolving Fund Loan		
	Principal	Interest	Total
2020	\$ 2,306,368	\$ 617,301	\$ 2,923,669
2021	2,361,721	561,948	2,923,669
2022	2,418,402	505,267	2,923,669
2023	2,476,444	447,225	2,923,669
2024	2,535,878	387,790	2,923,669
2025-2029	13,622,052	996,291	14,618,344
Total	<u>\$ 25,720,865</u>	<u>\$ 3,515,822</u>	<u>\$ 29,236,687</u>



## YUCAIPA VALLEY WATER DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

#### NOTE 6 – STATE REVOLVING FUND LOAN - 2010

In June 2010, the District entered into a loan agreement with the State of California Water Resources Control Board (SWRCB) to provide the funding for the construction of the Regional Brineline Extension Project. The maximum amount of \$9,752,100 has been drawn plus interest accrued during the period of construction of \$183,714. The loan accrues interest at a rate of 2.7 percent annually. Principal and interest payments are due in 20 annual installments. In accordance with Amendment No. 1 of the loan agreement, the first payment occurred in December 2013. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2010 State Revolving Fund Loan		
	Principal	Interest	Total
2020	\$ 447,138	\$ 202,136	\$ 649,274
2021	459,211	190,063	649,274
2022	471,609	177,664	649,274
2023	484,343	164,931	649,274
2024	497,420	151,854	649,274
2025-2029	2,695,956	550,412	3,246,368
2030-2033	2,430,828	166,266	2,597,094
Total	\$ 7,486,504	\$ 1,603,325	\$ 9,089,829

#### NOTE 7 – STATE REVOLVING FUND LOAN – 2013 (WISE)

In December 2011, the District entered into a loan agreement (Wise) with the State of California Water Resources Control Board (SWRCB) to provide the funding for Recycled Water Fund projects. The maximum amount of the loan is \$2,988,364. The loan accrues interest at a rate of 2.2 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred in March 2014. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2013 (Wise) State Revolving Fund Loan		
	Principal	Interest	Total
2020	\$ 136,599	\$ 48,652	\$ 185,251
2021	139,605	45,647	185,251
2022	142,676	42,575	185,251
2023	145,815	39,437	185,251
2024	149,023	36,229	185,251
2025-2029	795,757	130,499	926,257
2030-2033	701,977	39,029	741,005
Total	\$ 2,211,451	\$ 382,067	\$ 2,593,518

## YUCAIPA VALLEY WATER DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

#### NOTE 8 – STATE REVOLVING FUND LOAN – 2013 (R-10.3)

In December 2011, the District entered into a loan agreement (R-10.3) with the State of California Water Resources Control Board (SWRCB) to provide the funding for Recycled Water Fund projects. The maximum amount of the loan is \$871,570. The loan accrues interest at a rate of 2.2 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred in March 2014. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2013 (R-10.3) State Revolving Fund Loan		
	Principal	Interest	Total
2020	\$ 40,023	\$ 14,255	\$ 54,277
2021	40,903	13,374	54,277
2022	41,803	12,474	54,277
2023	42,723	11,555	54,277
2024	43,663	10,615	54,277
2025-2029	233,151	38,235	271,387
2030-2033	205,674	11,435	217,109
Total	<u>\$ 647,939</u>	<u>\$ 111,943</u>	<u>\$ 759,882</u>

#### NOTE 9 – STATE REVOLVING FUND LOAN – 2013 (CROW)

In December 2011, the District entered into a loan agreement (Crow Street) with the State of California Water Resources Control Board (SWRCB) to provide the funding for Recycled Water Fund projects. The District received the amount of \$310,179. The loan accrues interest at a rate of 2.2 percent annually on amounts drawn. Repayment will be made in 20 annual installments. The first payment occurred in March 2016. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2013 (Crow) State Revolving Fund Loan		
	Principal	Interest	Total
2020	\$ 15,667	\$ 5,574	\$ 21,241
2021	15,994	5,230	21,223
2022	16,346	4,878	21,223
2023	16,705	4,518	21,223
2024	17,073	4,151	21,223
2025-2029	91,166	14,951	106,116
2030-2033	80,422	4,471	84,893
Total	<u>\$ 253,372</u>	<u>\$ 43,771</u>	<u>\$ 297,144</u>



## YUCAIPA VALLEY WATER DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

#### NOTE 10 – COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation, sick leave and comp time, a portion of which will be paid to employees upon separation from the District. At June 30, 2019, total accruals for the Water and Sewer funds amounted to \$861,122 and \$372,441, respectively. The District estimated, based on historical trends, that approximately \$274,648 and \$130,354 of the Water and Sewer balances, respectively, will come due during fiscal year 2019-2020. During the year, compensated absences with an estimated value of \$358,227 were accrued, \$431,780 were used and the ending balance was \$1,233,563.

#### NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities balances for the fiscal year ended June 30, 2019:

	Balance June 30, 2018	Additions	Repayments	Balance June 30, 2019	Amount Due in 2019-20
2015 Refunding Revenue Bonds	\$ 27,735,000		\$ (1,115,000)	\$ 26,620,000	\$ 1,170,000
Unamortized premium	2,839,415		(170,365)	2,669,050	
Total Certificates of Participation	30,574,415		(1,285,365)	29,289,050	1,170,000
State Revolving Fund Loan - 2006	27,973,178		(2,252,312)	25,720,865	2,306,368
State Revolving Fund Loan - 2010	7,921,887		(435,383)	7,486,504	447,138
State Revolving Fund Loan - 2013 Wise	2,345,110		(133,659)	2,211,451	136,599
State Revolving Fund Loan - 2013 R-10.3	687,101		(39,161)	647,939	40,023
State Revolving Fund Loan - 2013 Crow	268,665		(15,331)	253,355	15,667
Total State Revolving Fund Loans	39,195,941		(2,875,846)	36,320,114	2,945,795
Total Long-term Liabilities	\$ 69,770,356	\$ -	\$ (4,161,211)	\$ 65,609,164	\$ 4,115,795

#### NOTE 12 – REVENUE PLEDGED

The District has pledged future water fund revenues, net of specified operating expenses, to repay \$30,810,000 in refunding revenue bonds (2015 bonds) as disclosed in Note 4. Net revenues are defined as operating income, less specified operating expenses, plus specified non-operating income. The 2015 bonds refunded the 2004 Certificates of Participation (COP). Proceeds from the COPs provided financing for the construction of the Yucaipa Valley Regional Water Filtration Facility (YVRWFF). The 2015 bonds are payable through 2035. Net revenues are anticipated to equal at least 110 percent of annual principal and interest payments. The total principal and interest remaining to be paid on the 2015 bonds is \$36,696,387. Principal and interest paid for the current year was \$2,294,737 and total net revenues were \$5,744,546.

For the state revolving fund loans recorded in the Sewer Fund, the District has pledged all revenues and amounts legally available to repay the loans.

# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 13 – DEFINED BENEFIT PENSION PLAN

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

**Benefits Provided** – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 60 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<b>PEPRA -</b>	
	<b>Miscellaneous</b>	<b>Miscellaneous</b>
	<b>Prior to January 1, 2013</b>	<b>On or after January 1, 2013</b>
Hire Date		
Formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of annual salary	2.00%	2.00%
Required employee contribution rates	7%	6.250%
Required employer contribution rates	7.653%	6.533%
Employer payment of unfunded liability	\$ 443,606	\$ 36

**Contributions** – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. Contributions to the pension plan from the District were \$919,668 for the year ended June 30, 2019.

### ***Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions***

As of June 30, 2019, the District reported a liability of \$6,176,087 for its proportionate share of the collective net pension liability.



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportion of the net collective pension liability as of June 30, 2018 and 2019 was as follows:

Proportion - June 30, 2018	0.06580%
Proportion - June 30, 2019	0.06409%
Change - Decrease	-0.00171%

For the year ended June 30, 2019, the District recognized a pension expense of \$811,055. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 919,668	
Changes between expected and actual experience	156,328	
Changes in proportion and differences between actual contributions and proportionate share of contributions	160,707	\$ 185,739
Changes in assumptions	531,533	
Net difference between projected and actual earnings on pension plan investments	30,533	
	<u>\$ 1,798,769</u>	<u>\$ 185,739</u>

\$919,668 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	
2020	\$ 618,534
2021	328,529
2022	(198,152)
2023	(55,550)
	<u>\$ 693,361</u>



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.15%
Mortality	Derived using CalPERS' Membership Data

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. Further details of the Experience Study (based on CalPERS demographic data from 1997 to 2015) can be found on the CalPERS website.

**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, the 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 period of projected benefit payments to determine the total pension liability.



# YUCAIPA VALLEY WATER DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

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

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

Asset Class <sup>(1)</sup>	New Strategic Allocation	Real Return Years 1-10 <sup>(2)</sup>	Real Return Years 11+ <sup>(3)</sup>
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%
Total	100%		

<sup>(1)</sup> In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in both Global Equity Securities and Global Debt Securities

<sup>(2)</sup> An expected inflation of 2.00% used for this period

<sup>(3)</sup> An expected inflation of 2.92% used for this period

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, 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:

1% Decrease		6.15%
Net Pension Liability	\$	10,285,684
Current Discount Rate		7.15%
Net Pension Liability	\$	6,176,087
1% Increase		8.15%
Net Pension Liability	\$	2,783,683

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.



# **YUCAIPA VALLEY WATER DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019**

### **NOTE 14 – COMMITMENTS**

The District has entered into contracts for various services and projects that will require payments in future fiscal years. None of these contracts are considered by management to represent a significant commitment of the district's resources.

### **NOTE 15 – INTERFUND ACTIVITY**

#### Interfund Services Provided

The Sewer fund reimburses the Water fund for the expenses related to administration, accounting and general services. The reimbursement is reflected in the statement of revenues, expenses and changes in net position as the revenue "Interfund services provided" in the Water Fund and included in the expense "Administrative services" in the Sewer Fund. The amount reimbursed for these services was \$202,500 as of June 30, 2019.

### **NOTE 16 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2019, the District purchased insurance through various commercial carriers to cover these risks with various limits including the Real Property & Business Personal Property blanket limit of \$99,902,731. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

### **NOTE 17 – ASSESSMENT DISTRICT**

The District acts in a fiduciary capacity for an assessment district that was formed to finance the construction and installation of a reservoir that will service properties located within the assessment district. The bonds issued by the assessment district are payable solely from the revenues of annual special taxes levied against land within the district and do not constitute an indebtedness of the Yucaipa Valley Water District. Yucaipa Valley Water District is not liable for the bonds, but acts as an agent for the bondholders. Since the District is acting in an agency capacity, the assets and liabilities of the assessment district have been excluded from the District's statement of net position. The amount outstanding on the bonds at June 30, 2019 was \$10,690,000.

# Required Supplementary Information



# YUCAIPA VALLEY WATER DISTRICT

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – LAST TEN YEARS\* AS OF THE FISCAL YEAR ENDING JUNE 30, 2019

	2019	2018	2017	2016	2015
Proportion of the collective net pension liability	0.06409%	0.06580%	0.06547%	0.06295%	0.07950%
Proportionate share of the collective net pension liability	\$ 6,176,087	\$ 6,525,230	\$ 5,665,084	\$ 4,320,667	\$ 4,947,010
Covered payroll	\$ 4,973,515	\$ 5,752,996	\$ 5,611,132	\$ 5,411,972	\$ 5,245,090
Proportionate share of the collective net pension liability as a percentage of covered payroll	124.18%	113.42%	100.96%	79.84%	94.32%
Plan fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	74.06%	78.40%	79.82%

\* - Fiscal year 2015 was the first year of implementation.

### *Changes of Assumption*

The discount rate stayed the same at 7.15 percent for the June 30, 2017 measurement date and June 30, 2018 measurement date.



## YUCAIPA VALLEY WATER DISTRICT

### REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS LAST TEN YEARS\* AS OF THE FISCAL YEAR ENDING JUNE 30, 2019

	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 919,668	\$ 752,731	\$ 697,729	\$ 882,127	\$ 570,529
Contributions in relation to the actuarially determined contribution	919,668	752,731	697,729	882,127	570,529
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,478,278	\$ 4,973,515	\$ 5,752,996	\$ 5,611,132	\$ 5,411,972
Contributions as a percentage of covered payroll	16.79%	15.13%	12.13%	15.72%	10.54%

\* - Fiscal year 2015 was the first year of implementation.