

**PURISSIMA HILLS WATER DISTRICT  
FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2018 AND 2017**

**JAMES MARTA & COMPANY LLP  
CERTIFIED PUBLIC ACCOUNTANTS**

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**PURISSIMA HILLS WATER DISTRICT**

**BOARD OF DIRECTORS**

**JUNE 30, 2018**

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<u>Name</u>	<u>Office</u>	<u>Term Expires December</u>
Stephen A. Jordan	President	2020
Peter Evans	Vice President	2018
Robert N. Anderson	Director	2018
Brian Holtz	Director	2020
Ernest Solomon	Director	2020

**ADMINISTRATION**

Patrick Walter  
General Manager

# PURISSIMA HILLS WATER DISTRICT

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# James Marta & Company LLP

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Purissima Hills Water District  
Los Altos Hills, California

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

We have audited the accompanying Statement of Net Position of Purissima Hills Water District (the District) as of June 30, 2018 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended and the related notes to the financial statement.

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

Management is responsible for the preparation and fair presentation of the basic 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Purissima Hills Water District as of June 30, 2018, 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.

## **Emphasis of Matter**

The financial statements for the year ended June 30, 2017 were audited by other auditors, who issued an unmodified opinion dated January 10, 2018. Our opinion is not modified with respect to this matter.

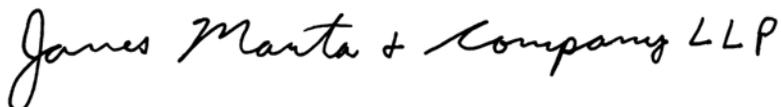
## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018 on our consideration of Purissima Hills Water District's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Purissima Hills Water District's internal control over financial reporting and compliance.



James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
November 6, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# PURISSIMA HILLS WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Purissima Hills Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2018 and 2017. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

### Financial Highlights

- The District's net position increased 4.0% or \$1,115,155 to \$27,884,771 in fiscal year 2018 as a result of current year operations. In 2017, the District's net position increased 2.2% or \$566,719 to \$26,769,616 as a result of 2016/17 fiscal year operations.
- The District's operating revenues increased 16.9% or \$899,293 in 2018 primarily due a \$901,422 increase in water consumption sales. In 2017, the District's operating revenues increased 21.4% or \$937,638 primarily due a \$943,456 increase in water consumption sales.
- The District's operating expenses increased 7.4% or \$432,871 in 2018 primarily due to an increase in source of supply expenses of \$483,193, which was offset by a decrease in maintenance expenses of \$53,068 and a slight decrease of administrative expenses of \$8,688. In 2017, the District's operating expenses increased 11.8% or \$524,711 primarily due to increases in source of supply expenses of \$353,828 and maintenance and administrative expenses of \$126,507.

### Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), and deferred outflows of resources, the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

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

### Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

### Financial Analysis of the District (continued)

**PURISSIMA HILLS WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position – the difference between assets and deferred outflows less liabilities and deferred inflows – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 25.

**Statement of Net Position**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2016</u>
Current and Other Assets	\$ 2,701,349	\$ 1,788,551	\$ 912,798	51%	\$ 1,774,808
Capital Assets, Net	26,193,166	25,930,929	262,237	1%	25,490,712
Total Assets	<u>28,894,515</u>	<u>27,719,480</u>	<u>1,175,035</u>	4%	<u>27,265,520</u>
Deferred Outflows of Resources	<u>301,400</u>	<u>190,717</u>	<u>110,683</u>	58%	<u>69,787</u>
Current and Other Liabilities	610,040	555,931	54,109	10%	681,179
Long-Term Liabilities	568,698	464,145	104,553	23%	235,576
Total Liabilities	<u>1,178,738</u>	<u>1,020,076</u>	<u>158,662</u>	16%	<u>916,755</u>
Deferred Inflows of Resources	<u>132,406</u>	<u>120,505</u>	<u>11,901</u>	10%	<u>215,655</u>
Net Investment in Capital Assets	26,193,166	25,930,929	262,237	1%	25,490,712
Restricted	196,310	175,320	20,990	12%	-
Unrestricted	1,495,295	663,367	831,928	125%	712,185
Total Net Position	<u>\$ 27,884,771</u>	<u>\$ 26,769,616</u>	<u>\$ 1,115,155</u>	4%	<u>\$ 26,202,897</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$27,884,771 and \$26,769,616 as of June 30, 2018 and 2017, respectively.

By far the largest portion of the District's net position (94% as of June 30, 2018 and June 30, 2017) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

**PURISSIMA HILLS WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

At the end of fiscal years 2018 and 2017, the District showed a positive balance in its unrestricted net position of \$1,495,295 and \$663,367, respectively, which may be utilized in future years.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2016</u>
Operating Revenue	\$ 6,214,981	\$ 5,315,690	\$ 899,291	17%	\$ 4,378,052
Non-Operating Revenue	1,186,802	1,084,452	102,350	9%	1,045,092
Total Revenues	<u>7,401,783</u>	<u>6,400,142</u>	<u>1,001,641</u>	16%	<u>5,423,144</u>
Operating Expenses	6,307,618	5,874,747	432,871	7%	5,294,149
Non-Operating Expenses	-	655	(655)	0%	-
Total Expenses	<u>6,307,618</u>	<u>5,875,402</u>	<u>432,216</u>	7%	<u>5,294,149</u>
Capital Contributions	<u>20,990</u>	<u>41,979</u>	<u>(20,989)</u>	-50%	<u>681,778</u>
Change in Net Position	1,115,155	566,719	569,425	97%	810,773
Net Position, Beginning	<u>26,769,616</u>	<u>26,202,897</u>	<u>566,719</u>	2%	<u>25,392,124</u>
Net Position, Ending	<u>\$ 27,884,771</u>	<u>\$ 26,769,616</u>	<u>\$ 1,136,144</u>	4%	<u>\$ 26,202,897</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$1,115,155 and \$566,719 for the fiscal years ended June 30, 2018 and 2017, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2018, the District's operating revenues increased 16.9% or \$899,293 in 2018 primarily due a \$901,422 increase in water consumption sales.

In 2017, the District's operating revenues increased 21.4% or \$937,637 primarily due a \$943,456 increase in water consumption sales and a rate increase effective July, 2017.

In 2018, the District's operating expenses increased 7.4% or \$432,874 in 2018 primarily due to an increase in source of supply expenses of \$483,193, which was offset by a decrease in maintenance expenses of \$53,068 and a slight decrease of administrative expenses of \$8,688.

In 2017, the District's operating expenses increased 13.1% or \$398,201 primarily due to increases in source of supply expenses of \$353,828 and maintenance and administrative expenses of \$126,507.

PURISSIMA HILLS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

**Capital Asset Administration**

At the end of fiscal year 2018 and 2017, the District's investment in capital assets amounted to \$26,193,166 and \$25,930,929 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions the District's transmission and distribution system.

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2016</u>
Land	\$ 180,099	\$ 180,099	\$ -	0%	\$ 180,099
Construction in Progress	703,487	317,333	386,154	122%	177,616
Supply Plant	264,336	235,560	28,776	12%	235,560
Pumping Plant	2,571,590	2,571,590	-	0%	2,555,543
Transmission and Distribution Mains	35,066,768	34,437,096	629,672	2%	33,329,064
General Plant and Equipment	2,389,409	2,260,401	129,008	6%	2,184,043
Capital Asset at Cost	41,175,689	40,002,079	1,173,610	3%	38,661,925
Less Accumulated Depreciation	(14,982,523)	(14,071,150)	911,373	6%	(13,171,213)
Capital Assets, Net	<u>\$ 26,193,166</u>	<u>\$ 25,930,929</u>	<u>\$ 262,237</u>	1%	<u>\$ 25,490,712</u>

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions which could have a significant impact on the District's current financial position or operating results based on past, present and future events.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 26375 Fremont Road, Los Altos Hills, CA 94022.

## **BASIC FINANCIAL STATEMENTS**

**PURISSIMA HILLS WATER DISTRICT**

**STATEMENT OF NET POSITION**

**JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,498,628	\$ 578,142
Accrued interest receivable	5,786	744
Accounts receivable - water sales and services, net	835,738	868,018
Accounts receivable - other	13,904	11,983
Inventory - water in storage	20,093	9,329
Inventory - materials and supplies	286,108	279,726
Prepaid expenses and deposits	<u>41,092</u>	<u>40,609</u>
Total Current Assets	2,701,349	1,788,551
Non-current Assets		
Capital assets, net (Note 3)	<u>26,193,166</u>	<u>25,930,929</u>
TOTAL ASSETS	<u>28,894,515</u>	<u>27,719,480</u>
Deferred Outflows of Resources:		
Pension related (Note 5)	<u>301,400</u>	<u>190,717</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable and accrued expenses	536,784	481,152
Accrued salaries and wages	4,956	5,707
Unearned revenues	41,920	49,688
Customer deposits	<u>26,380</u>	<u>19,384</u>
Total Current Liabilities	<u>610,040</u>	<u>555,931</u>
Long-Term Liabilities		
Compensated absences	18,101	20,552
Net pension liability (Note 5)	<u>550,597</u>	<u>443,593</u>
TOTAL LIABILITIES	<u>1,178,738</u>	<u>1,020,076</u>
Deferred Inflows of Resources:		
Pension related (Note 5)	<u>132,406</u>	<u>120,505</u>
<u>NET POSITION</u>		
Invested in capital assets	26,193,166	25,930,929
Restricted	196,310	175,320
Unrestricted	<u>1,495,295</u>	<u>663,367</u>
TOTAL NET POSITION	<u>\$ 27,884,771</u>	<u>\$ 26,769,616</u>

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

**PURISSIMA HILLS WATER DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2018 AND 2017**

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	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Water consumption sales	\$ 5,634,556	\$ 4,729,676
Service charges	491,647	487,010
Other charges	88,778	99,004
Total Operating Revenues	<u>6,214,981</u>	<u>5,315,690</u>
OPERATING EXPENSES		
Source of supply	3,605,937	3,128,605
Pumping	269,772	257,930
Transmission and distribution	719,606	772,676
Water treatment	24,087	18,257
Customer accounts	100,507	125,220
General and administrative	676,336	672,122
Depreciation	911,373	899,937
Total Operating Expenses	<u>6,307,618</u>	<u>5,874,747</u>
Operating income (loss)	(92,637)	(559,057)
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	945,474	859,364
Rental income - cellular antennas	228,405	223,067
Invetment income	12,923	2,021
Interest expense	-	(655)
Total Non-Operating Revenues (Expenses)	<u>1,186,802</u>	<u>1,083,797</u>
Net income before capital contributions	<u>1,094,165</u>	<u>524,740</u>
CAPITAL CONTRIBUTIONS		
Connection fees	20,990	41,979
Total capital contributions	<u>20,990</u>	<u>41,979</u>
CHANGE IN NET POSITION	1,115,155	566,719
NET POSITION, BEGINNING OF YEAR	<u>26,769,616</u>	<u>26,202,897</u>
NET POSITION, END OF YEAR	<u>\$ 27,884,771</u>	<u>\$ 26,769,616</u>

PURISSIMA HILLS WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED  
JUNE 30, 2018 AND 2017

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	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers for water sales and services	\$ 6,250,190	\$ 5,128,389
Payments for employee wages and benefits	(1,030,445)	(988,425)
Payments to suppliers for water and power	(3,886,473)	(3,385,680)
Payments to suppliers for materials and services	(441,926)	(673,197)
<b>Net Cash Flows Provided (Used) by Operating Activities</b>	<u>891,346</u>	<u>81,087</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Rent received for cellular antennas	228,405	223,067
Property taxes received	945,474	859,364
<b>Net Cash Flows Provided (Used) by Non-Capital Financing Activities</b>	<u>1,173,879</u>	<u>1,082,431</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(1,173,610)	(1,340,154)
Storage facility charges	20,990	41,979
Interest paid	-	(655)
<b>Net Cash Flows Provided (Used) by Capital &amp; Related Activities</b>	<u>(1,152,620)</u>	<u>(1,298,830)</u>
<b>Cash Flows From Investing Activities</b>		
Interest Income	7,881	1,937
<b>Net Cash Flows Provided (Used) by Investing Activities</b>	<u>7,881</u>	<u>1,937</u>
Net Increase (Decrease) in Cash	920,486	(133,375)
Beginning Cash and Equivalents	<u>578,142</u>	<u>711,517</u>
Ending Cash, Cash Equivalents and Restricted Cash	<u>\$ 1,498,628</u>	<u>\$ 578,142</u>

PURISSIMA HILLS WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED  
JUNE 30, 2018 AND 2017

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	<u>2018</u>	<u>2017</u>
<b>Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities</b>		
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ (92,637)	\$ (559,057)
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	911,373	899,937
(Increase) Decrease in:		
Accounts receivable	30,359	(150,628)
Inventory	(17,146)	4,060
Prepaid expenses and deposits	(483)	(466)
Deferred outflows	(110,683)	(120,930)
Increase (Decrease) in:		
Accounts payable and accrued expenses	55,632	(92,806)
Accrued salaries and wages	(751)	(3,274)
Unearned revenues and customer deposits	(772)	14,760
Compensated absences	(2,451)	(23,376)
Net pension liability	107,004	208,017
Deferred inflows	11,901	(95,150)
	<u>                    </u>	<u>                    </u>
Net Cash Provided (used) by Operating Activities	<u>\$ 891,346</u>	<u>\$ 81,087</u>

**PURISSIMA HILLS WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The Purissima Hills Water District (District) was formed in 1955 and provides service to two-thirds of the Town of Los Altos Hills, a rural community adjacent to the cities of Palo Alto and Los Altos, and unincorporated areas in Santa Clara County to the south. The District serves predominantly single-family homes on minimum one-acre lots. The District's largest customer is Foothill College. The District is governed by a five-member Board of Directors who each serves four year terms.

Purissima Hills Water District receives 100% of its water supply from San Francisco Public Utilities Commission (SFPUC) via two turnouts from the Hetch Hetchy pipeline along the Foothill Expressway on the northern edge of the District. The SFPUC water supply is gravity-fed through 18" transmission mains to two pump stations that pump to tanks distributed throughout the District. The distribution system consists of 4 pressure zones, 11 tanks, 5 pumping stations, 15 pumps, and 80 miles of pipe. All services within the District are pressurized or gravity fed from tanks in the respective pressure zones. The tanks have a total capacity of 10 million gallons.

**B. BASIS OF ACCOUNTING**

The District is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District include water service charges. Operating expenses of the District include employee costs, water purchases, maintenance, utilities, and other administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

**C. CASH AND CASH EQUIVALENTS**

The District considers cash on hand, cash in banks and the Local Agency Investment Fund to be cash and cash equivalents.

**D. ACCOUNTS RECEIVABLE**

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

**PURISSIMA HILLS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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**E. MATERIALS AND SUPPLIES INVENTORY**

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

**F. UNEARNED REVENUE**

Unearned revenue represents money collected in advance for customer water consumption sales.

**G. COMPENSATED ABSENCES**

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

**H. RESTRICTED NET POSITION**

Restricted net position represents storage facility charges collected and legally restricted for construction of transportation and storage facilities.

**I. CAPITAL ASSETS**

Capital assets are recorded at cost, or if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Transmission and distribution mains	15 - 50 years
Buildings	15 - 50 years
Transportation and other equipment	5 - 10 years
Computer and office equipment	5 - 10 years

District policy is to capitalize all assets, which cost \$5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

## PURISSIMA HILLS WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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#### **J. REVENUES**

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year. California state law requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund. No capacity charges have been collected by the District.

#### **K. PROPERTY TAXES**

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting. The County Assessor is responsible for assessment of all taxable real property within Santa Clara County. Reassessment is on a three-year schedule established by the Assessor. The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and November 1st. The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. The levy becomes an enforceable lien against the property as of March 1<sup>st</sup> following the levy year.

#### **L. INCOME TAXES**

The District is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

#### **M. PENSIONS**

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

**PURISSIMA HILLS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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**N. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES**

In addition to assets, the statement of net position includes 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(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net 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(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

**O. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**2. CASH AND INVESTMENTS**

Cash and cash equivalents as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 586	\$ 1,938
Cash in bank	45,263	174,272
Local Agency Investment Fund	<u>1,452,779</u>	<u>401,932</u>
Total Cash and Cash Equivalents	<u>\$ 1,498,628</u>	<u>\$ 578,142</u>

The carrying amount of the District's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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2. CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the District's investment in this pool, which approximates cost, is reported in the accompanying financial statements 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. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The monies held in the LAIF investment pool are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

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.

**PURISSIMA HILLS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not subject to depreciation				
Land	\$ 180,099	\$ -	\$ -	\$ 180,099
Construction in progress	317,333	432,315	46,161	703,487
Total capital assets not subject to depreciation	<u>497,432</u>	<u>432,315</u>	<u>46,161</u>	<u>883,586</u>
Capital assets being depreciated				
Supply plant	235,560	28,776		264,336
Pumping plant	2,571,590	-		2,571,590
Transmission and distribution mains	34,437,096	629,672	-	35,066,768
General plant and equipment	2,260,401	129,008	-	2,389,409
Total capital assets being depreciated	<u>39,504,647</u>	<u>787,456</u>	<u>-</u>	<u>40,292,103</u>
Less accumulated depreciation for:				
Supply plant	(235,560)	-	-	(235,560)
Pumping plant	(1,226,740)	(105,510)	-	(1,332,250)
Transmission and distribution mains	(11,419,865)	(740,249)	-	(12,160,114)
General plant and equipment	(1,188,985)	(65,614)	-	(1,254,599)
Total accumulated depreciation	<u>(14,071,150)</u>	<u>(911,373)</u>	<u>-</u>	<u>(14,982,523)</u>
Total capital assets, net of depreciation	<u>\$ 25,930,929</u>	<u>\$ 308,398</u>	<u>\$ 46,161</u>	<u>\$ 26,193,166</u>

Depreciation for the year's ended June 30, 2018 and 2017 was \$911,373 and \$899,937, respectively.

**4. LONG-TERM LIABILITIES**

The following is a summary of changes in the District's long-term liabilities during the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Net Pension Liability	\$ 443,593	\$ 107,004	\$ -	\$ 550,597	\$ -
Compensated Absences	20,552	-	2,451	18,101	-
	<u>\$ 464,145</u>	<u>\$ 107,004</u>	<u>\$ 2,451</u>	<u>\$ 568,698</u>	<u>\$ -</u>

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

5. LINE OF CREDIT

On July 13, 2016, the District entered into a revolving line of credit agreement with the Bank of the West to assist the District in meeting its daily cash flow requirements during the drought. Bank of the West has committed to loan the District \$500,000 with an annual fee of \$500 and a stated interest rate of prime plus 0.50% for the amount borrowed. On June 30, 2018 and 2017, the District's outstanding balance was \$0. At June 30, 2017, the District incurred interest expense for funds drawn throughout the fiscal year of \$655. There was no interest expense for the year ended June 30, 2018.

6. EMPLOYEE RETIREMENT PLAN

A. Plan Description

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

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	7.809%	6.370%

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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**A. Plan Description (Continued)**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Purissima Hills Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2018 and 2017, the contributions recognized as part of pension expense for the Plan were \$73,219 and \$71,068, respectively.

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

As of June 30, 2018 and 2017, the Purissima Hills Water District reported net pension liabilities for its proportionate share of the net pension liability of \$550,597 and \$443,593, respectively.

Purissima Hills Water District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. Purissima Hills Water District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 was as follows:

Proportion - June 30, 2016	0.00513%
Proportion - June 30, 2017	<u>0.00555%</u>
Change - Increase (Decrease)	<u><u>0.00042%</u></u>

**PURISSIMA HILLS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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

For the year ended June 30, 2018 and 2017, the District recognized pension expense of \$77,212 and \$66,005, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**June 30, 2018**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 73,219	
Difference between expected and actual experience	1,231	\$ (17,633)
Difference in actual vs. projected contributions		(62,052)
Change in employer's proportion	39,698	(41,076)
Changes in assumptions	152,715	(11,645)
Differences between projected and actual investment earnings	34,538	
Total	\$ 301,401	\$ (132,406)

\$73,219 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year Ending June 30</b>	
2019	\$ (16,756)
2020	85,503
2021	47,534
2022	(20,506)
2023	-
<b>Thereafter</b>	-

**PURISSIMA HILLS WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

	<u><b>June 30, 2017</b></u>	<u><b>Deferred Outflows of Resources</b></u>	<u><b>Deferred Inflows of Resources</b></u>
Pension contributions subsequent to measurement date	\$ 71,068		
Difference between expected and actual experience	1,844		
Difference in actual vs. projected contributions	-	\$	(48,026)
Change in employer's proportion	-		(49,845)
Changes in assumptions	-		(22,634)
Differences between projected and actual investment earnings	117,805		-
Total	<u>\$ 190,717</u>	<u>\$</u>	<u>(120,505)</u>

\$71,068 reported as deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the current year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year Ending June 30</b>	
2018	\$ (52,552)
2019	(38,929)
2020	61,408
2021	29,217
2022	-
<b>Thereafter</b>	-

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

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Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth Rate	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%
Mortality	Derived using CalERS' Membership Data for all Funds

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

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

*Discount Rate* – The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS website under the GASB 68 section.

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

**PURISSIMA HILLS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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

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

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

<u>Asset Class</u>	<u>Current Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

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

	Discount Rate - 1% <u>(6.15%)</u>	Current Discount Rate (7.15%)	Discount Rate + 1% <u>(8.15%)</u>
Plan's Net Pension Liability	\$ 1,053,989	\$ 550,597	\$ 133,679

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

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**C. Payable to the Pension Plan**

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

**7. JOINTLY GOVERNED ORGANIZATIONS**

The District is a member of two jointly governed organizations. The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA) which provides employee benefits coverage for medical, dental, vision, life and disability. The District is also a member of Bay Area Water Supply & Conservation Agency (BAWSCA) which purchases water on a wholesale basis from the San Francisco regional water system for its members.

ACWA JPIA and BAWSCA are governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from ACWA JPIA and BAWSCA. Condensed information for ACWA JPIA and BAWSCA for the years ended September 30, 2017 and June 30, 2017, respectively, is as follows:

	ACWA JPIA September 30, 2017	BAWSCA June 30, 2017
Total Assets	\$ 199,365,344	\$ 351,541,440
Total Deferred Outflows	1,404,974	307,944
Total Liabilities	123,871,469	338,145,602
Total Deferred Inflows	1,576,175	145,356
Total Net Position	75,322,674	13,558,426
Total Revenues	170,789,597	31,097,575
Total Expenses	164,170,540	29,612,624
Change in Net Position	6,619,057	1,484,951

**PURISSIMA HILLS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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**8. LEASE REVENUES**

The District contracted with five different companies to lease land for communication towers on those properties. The agreements are for multiple years and require monthly payments based on the contracted amounts. Each lease is typically for 5 years and renewable for 5 successive 5 year terms. Each lease provides for an annual rent increase of 3%. Lease revenues for the years ended June 30, 2018 and 2017 totaled \$228,405 and \$223,067, respectively. A schedule of future lease revenues as of June 30, 2018, based on the current agreements is as follows:

<b>Fiscal Year Ending June 30:</b>	<b>Amount</b>
2019	\$ 236,348
2020	243,438
2021	250,742
2022	112,724
2023	116,105
2024	66,730
Total	<u>\$ 1,026,087</u>

**9. DEFERRED COMPENSATION**

The District has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation.

The District believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District has formally established a trust in accordance with Internal Revenue Code Section 457(g) to provide protection from the claims of the employer's general creditors. Accordingly deferred compensation assets placed in the trust are not reflected in these financial statements.

**PURISSIMA HILLS WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**10. SCHEDULE OF CAPACITY CHARGES**

<b>Beginning Fund Balance, July 1 2017</b>	<b>\$175,320</b>		
<b>Storage and Transmission Charges Received During the Year:</b>			
26438 Ascension Dr	\$6,997		
Foothill- De Anza College District	\$13,993		
Total Capacity Charges received	<u>\$20,990</u>		
<b>Fund Balance Prior to Project Funding</b>	<b>\$196,310</b>		
<b>Public Improvement Expenditures for the Year:</b>			
Project	Project Expenditures	Percentage Complete	Project Expenditures Funded with Fees above
Vinedo Main Replacement Project	\$323,682	100%	\$196,310
<b>Ending Fund Balance, June 30, 2018</b>			<u><b>\$0</b></u>

**11. COMMITMENTS**

***Litigation***

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

***Contracts***

The District had one open contract for a chlorine generation unit in the amount of \$26,000, which had not been completed as of the end of the fiscal year.

**12. SUBSEQUENT EVENTS**

District management has evaluated its June 30, 2018 financial statements for subsequent events through November 6, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**PURISSIMA HILLS WATER DISTRICT**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY**

**JUNE 30, 2018**

	Fiscal Year <sup>(1)</sup>			
	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
Proportion of the net pension liability	0.00503%	0.00343%	0.00513%	0.00555%
Proportionate share of the net pension liability	\$ 313,189	\$ 235,576	\$ 443,593	\$ 550,597
Covered-employee payroll (2)	\$ 563,729	\$ 591,003	\$ 617,228	\$ 635,362
Proportionate share of the net pension liability as percentage of covered-employee payroll	55.56%	39.86%	71.87%	86.66%
Plans fiduciary net position as a percentage of the total pension liability	81.15%	79.89%	75.87%	75.39%
Proportionate share of aggregate employer contributions (3)	\$ 43,152	\$ 44,117	\$ 66,307	\$ 71,068

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

(3) The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

**PURISSIMA HILLS WATER DISTRICT**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**JUNE 30, 2018**

	Fiscal Year <sup>(1)</sup>			
	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
Actuarially Determined Contribution (2)	\$ 43,152	\$ 44,117	\$ 66,307	\$ 71,068
Contributions in relation to the actuarially determined contributions (2)	(43,152)	(49,680)	(66,959)	(70,143)
Contribution deficiency (excess)	\$ -	\$ (5,563)	\$ (652)	\$ 925
Covered-employee payroll (3,4)	\$ 563,729	\$ 591,003	\$ 617,228	\$ 635,362
Contributions as a percentage of covered-employee payroll (3)	7.65%	7.46%	10.74%	11.19%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(3) Covered-employee payroll represented above is based on pensionable earnings provided by the

(4) Payroll from prior year was assumed to increase by the 3.00 percent payroll growth assumption.

## **OTHER INDEPENDENT AUDITOR'S REPORT**



# James Marta & Company LLP

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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

### Independent Auditor's Report

Board of Directors  
Purissima Hills Water District  
Los Altos Hills, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Purissima Hills Water District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 6, 2018.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies (2018-1).

## **Compliance and Other Matters**

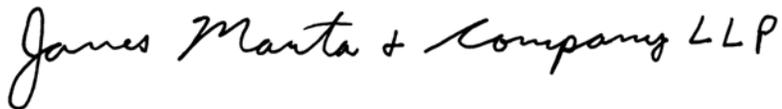
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

## **District's Response to Findings**

Purissima Hills Water District's response to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "James Marta & Company LLP".

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
November 6, 2018

PURISSIMA HILLS WATER DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2018

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**2018-01 Materials and Supplies Inventory – Significant Deficiency**

Observation:

The District did not have a complete detail listing and valuation of its materials and supplies inventory as of June 30, 2018. Keeping current, accurate records of inventory provides an up-to-date listing of on-hand inventory, as well as tighter control over assets. In addition, a physical inventory was not conducted at year end to determine the accuracy of the inventory amount recorded in the accounting system. An overall accurate inventory balance is composed of two major components. The first component is proper quantities of goods in inventory and the second is accurate inventory costing.

Recommendation:

The District should implement an inventory system that tracks all pertinent information so that purchases, sales, returns and damaged items would each be accounted for and recorded accurately. Physical counts of inventory should be done at least annually. The results should be reviewed and reconciled to the amounts recorded in the accounting system. Management should formally document the procedures for performing its physical inventory counts. These instructions should include specific tasks to be done by District personnel, specific tasks to be done by the Accounting Department, completion of inventory tags and completion of the inventory control sheets. The written instructions should also include reconciliation and recount procedures

Management Response:

Inventory of almost 1600 items, each with a full and unique description, is currently maintained on the QuickBooks (QB) inventory module. Inventory is input into QB when received and charged to the appropriate account number as parts are used on a project. The small plumbing parts are located in a locked storeroom and the count for each item is maintained with a card on the item bin. One staff member, Jose, has taken ownership of the inventory process, and while he does a good job, our size and activity level doesn't justify a dedicated person. Errors can occur without a dedicated person managing the inventory process.

A physical inventory was started in September and nearly finished, but not completed, due to competing workload of emergency main repairs, the Purissima Road Mains Project and extensive locating of District facilities for Comcast and various other construction projects. While the item counts on the cards have been updated no changes were made in QB.

Management views QB as an inadequate software program for maintaining inventory for the primary reason that when the value of an item is changed in QB, it changes the historical value for each instance where the item was used. This has been recognized for a number of years, and a recent upgrade to an inventory module in our Elements Work Order System has made it possible to change inventory software programs. Significant progress has been made in that current vendor cost has been researched and updated along with vendor part number for ease of ordering. All of the inventory items have been uploaded into Elements and various errors have been corrected. The process flow includes purchase requisitions, purchase orders and invoices. Currently, the GIS is being integrated into Elements, since the inventory is primarily used on District facilities. The Elements system incorporates the District's ipads where inventory can be moved to a transitional location (ie staff truck); using the ipad to electronically update the system, as it leaves the storeroom, providing improved control and accuracy. The inventory count will be finalized as the new system goes live, scheduled for December, 2018.