

**MID-PENINSULA WATER DISTRICT  
FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

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

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**MID-PENINSULA WATER DISTRICT**

**BOARD OF DIRECTORS**

**JUNE 30, 2018**

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| Name            | Office         | Term Expires<br>December |
|-----------------|----------------|--------------------------|
| Dave Warden     | President      | 2018                     |
| Louis Vella     | Vice President | 2020                     |
| Betty Linvill   | Director       | 2018                     |
| Albert Stuebing | Director       | 2018                     |
| Matthew Zucca   | Director       | 2020                     |

**ADMINISTRATION**

Tammy Rudock  
General Manager

## MID-PENINSULA 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  
Mid-Peninsula Water District  
Belmont, California

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

We have audited the accompanying Statement of Net Position of Mid-Peninsula Water District (the District) as of June 30, 2018 and 2017 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years 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 District*. 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 Mid-Peninsula Water District as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplemental Information*

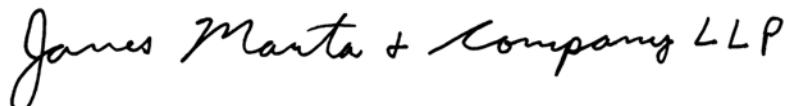
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions, Schedule of Changes in the Net OPEB Liability and Related Ratios and Schedule of OPEB 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.

### *Change in Accounting Principle*

Mid-Peninsula Water District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which required a restatement of net position as of July 1, 2017. The effects of this restatement are described in Note 11 to the basic financial statements.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of Mid-Peninsula 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 Mid-Peninsula Water District's internal control over financial reporting and compliance.



James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
October 29, 2018

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

## MID-PENINSULA WATER DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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This section of the Mid-Peninsula Water District's ("District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2018. It should be reviewed in conjunction with the District's basic financial statements for the fiscal year ended June 30, 2018.

#### **FINANCIAL HIGHLIGHTS**

- The District's Net Position increased by \$481,739 (2%) during the fiscal year ended June 30, 2018.
- The District's operating revenues increased from the previous year by \$1,399,786 (12%).
- Non-operating revenues increased from the previous year by \$557,043 (76%).
- Operating expenses increased by \$288,072 (3%).
- Non-Operating expenses increased by \$8,600 (0%).

The "Changes in Net Position" portion of the report details the various factors behind the highlights.

#### **USING THIS ANNUAL REPORT**

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

#### **Required Financial Statements**

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies, which include Generally Accepted Accounting Principles (GAAP). The Statement of Net Position included all District assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and capital and noncapital financing activities.

#### **FINANCIAL ANALYSIS OF THE DISTRICT**

**MID-PENINSULA WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

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One of the most important questions asked about the District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about the District activities in a way that responds to this question. The statement of the District's net position (the difference between assets and liabilities), is one measure of financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

**Condensed Statement of Net Position**

|                                   | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>Amount<br/>Increase<br/>(Decrease)</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> | <u>June 30, 2016</u> |
|-----------------------------------|----------------------|----------------------|---|--|----------------------|
| Current and Other Assets          | \$ 8,391,384         | \$ 6,647,328         | \$ 1,744,056                              | 26%  | \$ 5,495,630         |
| Restricted cash with fiscal agent | 16,540,967           | 18,956,420           | (2,415,453)                               | n/a  | -                    |
| Capital Assets, Net               | 20,657,271           | 18,037,446           | 2,619,825                                 | 15%  | 16,801,357           |
| Total Assets                      | <u>45,589,622</u>    | <u>43,641,194</u>    | <u>1,948,428</u>                          | <u>4%</u>                                  | <u>22,296,987</u>    |
| Deferred Outflows of Resources    | 1,210,080            | 803,133              | 406,947                                   | 51%  | 442,276              |
| Current and Other Liabilities     | 2,665,025            | 2,064,658            | 600,367                                   | 29%  | 918,226              |
| Long-Term Liabilities             | 24,277,414           | 20,069,136           | 4,208,278                                 | 21%  | 1,476,886            |
| Total Liabilities                 | <u>26,942,439</u>    | <u>22,133,794</u>    | <u>4,808,645</u>                          | <u>22%</u>                                 | <u>2,395,112</u>     |
| Deferred Inflows of Resources     | 959,375              | 1,229,359            | (269,984)                                 | -22%                                       | 195,448              |
| Net Investment in Capital Assets  | 20,657,271           | 18,037,446           | 2,619,825                                 | 15%  | 16,801,357           |
| Unrestricted Net Position         | 905,642              | 3,043,728            | (2,138,086)                               | -70%                                       | 3,347,346            |
| Total Net Position                | <u>\$ 21,562,913</u> | <u>\$ 21,081,174</u> | <u>\$ 481,739</u>                         | <u>2%</u>                                  | <u>\$ 20,148,703</u> |

The District's net position at fiscal year end June 30, 2018 increased \$481,739 (2%) when compared to fiscal year end June 30, 2017. Factors contributing to this increase are mainly due to an increase in our AMI Meter Change out program totaling an increase of \$493,802 (24%); AMI New & Upgraded Meters totaling an increase of \$336,155 (13%); Pumps & Valves totaling an increase of \$65,811 (63%); and Computer System upgrades totaling \$167,402 (66%).

**Changes in Net Position**

Changes in the District's net position between fiscal year end June 30, 2018, and fiscal year end June 30, 2017, can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position.

# MID-PENINSULA WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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

|                         | <b>June 30, 2018</b> | <b>June 30, 2017</b> | <b>Amount<br/>Increase<br/>(Decrease)</b> | <b>Percent<br/>Increase<br/>(Decrease)</b> | <b>June 30, 2016</b> |
|-------------------------|----------------------|----------------------|---|--|----------------------|
| Operating Revenue       | \$ 12,853,697        | \$ 11,453,911        | \$ 1,399,786                              | 12%  | \$ 10,130,083        |
| Non-Operating Revenue   | 1,336,084            | 759,041              | 577,043                                   | 76%  | 451,951              |
| Total Revenues          | <u>14,189,781</u>    | <u>12,212,952</u>    | <u>1,976,829</u>                          | 16%  | <u>10,582,034</u>    |
| Operating Expenses      | 10,872,601           | 10,584,529           | 288,072                                   | 3%   | 9,677,627            |
| Non-Operating Expenses  | 704,552              | 695,952              | 8,600                                     | 0%   | -                    |
| Total Expenses          | <u>11,577,153</u>    | <u>11,280,481</u>    | <u>296,672</u>                            | 3%   | <u>9,677,627</u>     |
| Change in Net Position  | 2,612,628            | 932,471              | 1,680,157                                 | 180%                                       | 904,407              |
| Net Position, Beginning | 18,950,285 *         | 20,148,703           | (1,198,418)                               | -6%  | 19,244,296           |
| Net Position, Ending    | <u>\$ 21,562,913</u> | <u>\$ 21,081,174</u> | <u>\$ 481,739</u>                         | 2%   | <u>\$ 20,148,703</u> |

\* The net position beginning July 1, 2017 was restated as a result of the implementation of GASB Statement No. 75.

See note 11 to the financial statements.

The District's Operating Revenues increased by \$1,399,786 (12%) due to various factors:

- Water revenues increased by \$1,283,855 (11%);

The District's Non-Operating Revenues Increased by \$557,043 (76%) due to various factors:

- Rent increased by \$9,764 (7%);
- Property Tax increased by \$26,194 (9%);
- Interest Income increased by \$196,254 (268%); and

Operating Expenses increased by \$288,072 (3%) due to various factors:

- Salaries and benefits decreased by -\$263,753 (-10%) primarily due to: Gross Salaries & Wages decreased by -\$198,442 (-13%) due to salaries attributed to capital projects and corrected sick leave balances that could be paid out at retirement. Overtime & Standby Labor increased by \$1,896 (3%); Payroll & Tax Benefits decreased by -\$67,207 (-6%) due to Board's decision to fully fund its OPEB (Other Post-Employment Benefits) liability.
- Maintenance and rehabilitation (M&R) increased by \$292,157 (74%) primarily due to: Mains & Distributions increased by \$309,520 (288%) due to significant water main breaks.
- Purchased Water increased by \$386,637 (7%) due to increased water usage.
- Utilities decreased by -\$17,115 (-6%) due to Utilities – Pumping decreased by -\$18,413 (9%) using non-peak hours to pump water through our system.
- Professional Services increased by \$24,743 (6%) primarily due to: District Counsel increased by \$4,734 (8%); District Engineer increased by \$23,056 in Operations Costs (43%); and Customer Billing increased by \$5,842 (10%).
- Administrative and other costs decreased by -\$102,253 (-15%) primarily due to a decrease in Net Pension Expense by -\$80,468 (-295%); Equipment Services/Maintenance decreased by -\$10,849 (-44%); and Computer Supplies & Upgrades decreased by -\$11,512 (-42%).
- Depreciation decreased by -\$28,916 (-3%) due to assets fully depreciated during the year.
- Debt Service/Finance Costs increased by \$344,185 (88%) due to Certificates of Participation (COP) payments.

## MID-PENINSULA WATER DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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#### **2016 COP CIP DEBT ISSUANCE**

In December 2016, the District issued COP's in the amount of \$18,570,000 to finance certain improvements to the District's municipal water system. Principal is due annually in December and interest is payable on June 1 and December 1. The certificates have an interest rate of 4% and mature on December 1, 2046 (reference Trust Agreement dated December 1, 2016). The Certificates of Participation were issued at a premium of \$938,447, which is being amortized over the life of the debt and is recorded as deferred inflows on the statement of net position.

The annual payments required to amortize the Certificates of Participation outstanding as of June 30, 2018, are as follows, which includes a reference to interest payments made based on the Official Statement Schedule (OSS):

| <b>Year Ended<br/>June 30:</b> | <b>Principal</b>     | <b>Interest</b>      | <b>Total</b>         |
|--------------------------------|----------------------|----------------------|----------------------|
| 2019                           | \$ 345,000           | \$ 723,300           | \$ 1,068,300         |
| 2020                           | 360,000              | 709,200              | 1,069,200            |
| 2021                           | 375,000              | 694,500              | 1,069,500            |
| 2022                           | 385,000              | 679,300              | 1,064,300            |
| 2023                           | 405,000              | 663,500              | 1,068,500            |
| 2024-2028                      | 2,270,000            | 3,057,000            | 5,327,000            |
| 2029-2033                      | 2,760,000            | 2,555,600            | 5,315,600            |
| 2034-2038                      | 3,360,000            | 1,945,600            | 5,305,600            |
| 2039-2043                      | 4,090,000            | 1,203,000            | 5,293,000            |
| 2044-2047                      | 3,905,000            | 320,100              | 4,225,100            |
| <b>Total</b>                   | <b>\$ 18,255,000</b> | <b>\$ 12,551,100</b> | <b>\$ 30,806,100</b> |

#### **BUDGETARY HIGHLIGHTS**

In its commitment to fiscal responsibility, the District timely adopted an annual budget for Fiscal Year 2017/2018 that projected revenues and expenditures for operations and capital improvements.

## MID-PENINSULA WATER DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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#### **CAPITAL ASSETS**

During the fiscal year ended June 30, 2018, the District had \$20,657,271 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

|                               | June 30, 2018        | June 30, 2017        | Amount<br>Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) | June 30, 2016        |
|-------------------------------|----------------------|----------------------|----------------------------------|-----------------------------------|----------------------|
| Land                          | \$ 1,045,264         | \$ 1,045,264         | \$ -                             | 0%                                | \$ 1,045,264         |
| Construction in Progress      | 3,865,728            | 1,476,675            | 2,389,053                        | 162%                              | 557,268              |
| Utility Plant in Service      | 41,163,223           | 40,244,250           | 918,973                          | 2%                                | 39,021,042           |
| Vehicles                      | 1,505,117            | 1,685,412            | (180,295)                        | -11%                              | 1,685,412            |
| Computer System               | 421,288              | 253,886              | 167,402                          | 66%                               | 256,462              |
| Capital Asset at Cost         | 48,000,620           | 44,705,487           | 3,295,133                        | 7%                                | 42,565,448           |
| Less Accumulated Depreciation | <u>(27,343,349)</u>  | <u>(26,668,041)</u>  | <u>675,308</u>                   | 3%                                | <u>(25,764,091)</u>  |
| Capital Assets, Net           | <u>\$ 20,657,271</u> | <u>\$ 18,037,446</u> | <u>\$ 2,619,825</u>              | 15%                               | <u>\$ 16,801,357</u> |

#### **RATES AND OTHER ECONOMIC FACTORS**

The District is governed in part by provisions of the State Water Resources Control Board that require rate-based revenues must cover the costs of Operations, Maintenance and Repairs (OM&R) and capital improvement projects. The District is not subject to general economic conditions such as increases or reductions in property tax values or other types of revenues, such as sales taxes, that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R, capital improvement projects, plus any increments for known or anticipated changes in program costs.

#### **REQUESTS FOR FINANCIAL INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District fiscal accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact:

Tammy Rudock, General Manager  
Mid-Peninsula Water District  
3 Dairy Lane  
Belmont, CA 94002  
(650) 591-8941

## **BASIC FINANCIAL STATEMENTS**

**MID-PENINSULA WATER DISTRICT**

**STATEMENT OF NET POSITION**

**JUNE 30, 2018 AND 2017**

|  | <b>2018</b>                 | <b>2017</b>                 |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>                              |                             |                             |
| Current Assets                             |                             |                             |
| Cash and cash equivalents (Note 2)         | \$ 6,917,634                | \$ 5,193,830                |
| Accounts receivables                       | 1,256,812                   | 1,222,216                   |
| Prepaid expenses and other assets          | <u>216,938</u>              | <u>231,282</u>              |
| Total Current Assets                       | 8,391,384                   | 6,647,328                   |
| Restricted cash with fiscal agent (Note 2) | 16,540,967                  | 18,956,420                  |
| Capital assets, net (Note 3)               | <u>20,657,271</u>           | <u>18,037,446</u>           |
| <b>TOTAL ASSETS</b>                        | <b><u>45,589,622</u></b>    | <b><u>43,641,194</u></b>    |
| Deferred Outflows of Resources:            |                             |                             |
| OPEB related (Note 7)                      | 391,509                     | -                           |
| Pension related (Note 5)                   | <u>818,571</u>              | <u>803,133</u>              |
| Total Deferred Outflows                    | <u>1,210,080</u>            | <u>803,133</u>              |
| <b>LIABILITIES</b>                         |                             |                             |
| Current Liabilities                        |                             |                             |
| Accounts payable                           | 904,420                     | 236,936                     |
| Accrued expenses                           | 1,415,605                   | 1,512,722                   |
| Unearned revenue                           | -                           | -                           |
| Current portion of long-term debt (Note 4) | <u>345,000</u>              | <u>315,000</u>              |
| Total Current Liabilities                  | <u>2,665,025</u>            | <u>2,064,658</u>            |
| Long-Term Liabilities                      |                             |                             |
| Certificates of Participation (Note 4)     | 17,910,000                  | 18,255,000                  |
| Net pension liability (Note 5)             | 1,588,940                   | 1,387,977                   |
| Net OPEB Liability (Note 7)                | 1,825,778                   | 68,498                      |
| Compensated absences                       | <u>287,671</u>              | <u>357,661</u>              |
| <b>TOTAL LIABILITIES</b>                   | <b><u>24,277,414</u></b>    | <b><u>22,133,794</u></b>    |
| Deferred Inflows of Resources:             |                             |                             |
| Pension related (Note 5)                   | 70,457                      | 309,159                     |
| Original issue premium                     | <u>888,918</u>              | <u>920,200</u>              |
| Total Deferred Inflows                     | <u>959,375</u>              | <u>1,229,359</u>            |
| <b>NET POSITION</b>                        |                             |                             |
| Net investment in capital assets           | 18,628,238                  | 18,037,446                  |
| Unrestricted                               | <u>2,934,675</u>            | <u>3,043,728</u>            |
| <b>TOTAL NET POSITION</b>                  | <b><u>\$ 21,562,913</u></b> | <b><u>\$ 21,081,174</u></b> |

**MID-PENINSULA 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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|  | <b>2018</b>                 | <b>2017</b>                 |
|--|-----------------------------|-----------------------------|
| <b>OPERATING REVENUES</b>                        |                             |                             |
| Water service charges                            | \$ 12,630,636               | \$ 11,346,781               |
| Other revenue                                    | <u>223,061</u>              | <u>107,130</u>              |
| Total Operating Revenues                         | <u>12,853,697</u>           | <u>11,453,911</u>           |
| <b>OPERATING EXPENSES</b>                        |                             |                             |
| Salaries and benefits                            | 2,371,885                   | 2,742,823                   |
| Maintenance and rehabilitation                   | 684,956                     | 392,800                     |
| Purchased water                                  | 5,579,589                   | 5,192,951                   |
| Utilities  | 252,124                     | 269,238                     |
| Professional services                            | 416,562                     | 391,818                     |
| Administrative and other                         | 692,452                     | 690,950                     |
| Depreciation                                     | <u>875,033</u>              | <u>903,949</u>              |
| Total Operating Expenses                         | <u>10,872,601</u>           | <u>10,584,529</u>           |
| <b>OPERATING INCOME (LOSS)</b>                   | <b>1,981,096</b>            | <b>869,382</b>              |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>         |                             |                             |
| Rent   | 151,714                     | 141,949                     |
| Property taxes                                   | 327,313                     | 301,119                     |
| Amortization of COP premium                      | 31,282                      | 18,248                      |
| COP issue costs                                  | -                           | (322,551)                   |
| Debt service interest                            | (735,834)                   | (391,649)                   |
| Interest income                                  | 289,386                     | 73,205                      |
| Capital contributions                            | <u>567,671</u>              | <u>242,768</u>              |
| Total Non-Operating Revenues (Expenses)          | <u>631,532</u>              | <u>63,089</u>               |
| <b>CHANGE IN NET POSITION</b>                    |                             |                             |
| <b>NET POSITION, BEGINNING OF YEAR</b>           |                             |                             |
| As originally reported                           | 21,081,174                  | 20,148,703                  |
| Prior period restatement Note 11)                | <u>(2,130,889)</u>          | <u>-</u>                    |
| <b>NET POSITION, BEGINNING OF YEAR, restated</b> | <b><u>18,950,285</u></b>    | <b><u>20,148,703</u></b>    |
| <b>NET POSITION, END OF YEAR</b>                 | <b><u>\$ 21,562,913</u></b> | <b><u>\$ 21,081,174</u></b> |

**MID-PENINSULA WATER DISTRICT**

**STATEMENT OF CASH FLOWS**

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

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|   | <b>2018</b>         | <b>2017</b>         |
|---|---------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>                               |                     |                     |
| Receipts from customers and users   | \$ 12,596,040       | \$ 11,108,406       |
| Other operating revenue   | 223,061             | 107,130             |
| Payments to suppliers   | (7,040,972)         | (6,081,793)         |
| Payments related to employees   | (3,260,170)         | (2,670,967)         |
| <b>Net Cash Flows Provided (Used) by Operating Activities</b>             | <u>2,517,959</u>    | <u>2,462,776</u>    |
| <b>Cash Flows From Non-Capital Financing Activities</b>                   |                     |                     |
| Rent received   | 151,714             | 141,949             |
| Property taxes received   | 327,313             | 301,119             |
| <b>Net Cash Flows Provided (Used) by Non-Capital Financing Activities</b> | <u>479,027</u>      | <u>443,068</u>      |
| <b>Cash Flows From Capital and Related Financing Activities</b>           |                     |                     |
| Acquisition of capital assets   | (3,494,858)         | (2,140,038)         |
| Cash received for completed projects                                      | 567,671             | 242,768             |
| Issuance of COP Bonds   | -                   | 19,204,145          |
| Restricted cash deposited with fiscal agent                               | 2,415,453           | (18,956,420)        |
| Principal paid on COP Bonds   | (315,000)           | -                   |
| Interest paid on COP Bonds  | (735,834)           | (391,649)           |
| <b>Net Cash Flows Provided (Used) by Capital &amp; Related Activities</b> | <u>(1,562,568)</u>  | <u>(2,041,194)</u>  |
| <b>Cash Flows From Investing Activities</b>                               |                     |                     |
| Interest Income   | 289,386             | 63,295              |
| <b>Net Cash Flows Provided (Used) by Investing Activities</b>             | <u>289,386</u>      | <u>63,295</u>       |
| Net Increase (Decrease) in Cash   | 1,723,804           | 927,945             |
| Beginning Cash and Equivalents  | 5,193,830           | 4,265,885           |
| Ending Cash, Cash Equivalents and Restricted Cash                         | <u>\$ 6,917,634</u> | <u>\$ 5,193,830</u> |

**MID-PENINSULA WATER DISTRICT**

**STATEMENT OF CASH FLOWS**

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

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|  | <b>2018</b>               | <b>2017</b>               |
|--|---------------------------|---------------------------|
| <b>Reconciliation of Operating Income (loss) to Net Cash Provided (used) by<br/>Operating Activities</b> |                           |                           |
| Cash Flows from Operating Activities:  |                           |                           |
| Operating Income (Loss)  | \$ 1,981,096              | \$ 869,382                |
| Adjustments to Reconcile Operating Income (loss) to Net Cash<br>Provided (used) by Operations:           |                           |                           |
| Depreciation   | 875,033                   | 903,949                   |
| (Increase) Decrease in:  |                           |                           |
| Accounts receivable  | (34,596)                  | (238,375)                 |
| Prepaid expenses and other assets  | 14,344                    | 24,532                    |
| Deferred outflows  | (406,947)                 | (360,857)                 |
| Increase (Decrease) in:  |                           |                           |
| Accounts payable   | 667,484                   | 30,000                    |
| Accrued benefits   | (69,990)                  | 36,784                    |
| Net OPEB liability   | (373,609)                 | 26,029                    |
| Customer deposits  | (97,117)                  | 801,432                   |
| Net pension liability  | 200,963                   | 274,437                   |
| Deferred inflows   | (238,702)                 | 95,463                    |
|  | <hr/>                     | <hr/>                     |
| Net Cash Provided (used) by Operating Activities   | <hr/> <u>\$ 2,517,959</u> | <hr/> <u>\$ 2,462,776</u> |

## MID-PENINSULA 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

Mid-Peninsula Water District (the District) is a separate political subdivision of the State of California. The District was established on July 2, 1929 as the Belmont County Water District and changed its name effective July 1, 2000. The District maintains and operates a system of storage tanks and water mains. It purchases water from the San Francisco Public Utilities Commission for distribution to its customers through this system.

The District's Board of Directors formed a non-profit public benefit corporation known as the Public Property Financing Corporation of California (Financing Authority). The District and the Financing Authority have a financial and operational relationship which meets the reporting entity definition criteria of Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the Financing Authority as a blended component unit of the District. Therefore, the financial activities of Financing Authority have been included in the financial statements of the District.

The following are those aspects of the relationship between the District and Financing Authority which satisfy Codification of Governmental Accounting and Financial Reporting Standards, Section 2100:

##### Manifestations of Oversight

The Financing Authority's Board of Directors is the District's Board of Directors.

The Financing Authority has no employees. The District's general manager functions as an agent of the Financing Authority. The individuals did not receive additional compensation for work performed in this capacity.

The District exercises significant influence over operations of the Financing Authority as it is anticipated that the District will be the sole lessee of all facilities owned by the Financing Authority.

##### Accounting for Fiscal Matters

All major financing arrangements, contracts, and other transactions of the Financing Authority must have the consent of the District.

Any deficits incurred by the Financing Authority will be reflected in the lease payments of the District. Any surpluses of the Financing Authority revert to the District at the end of the lease period.

It is anticipated that the District's lease payments will be the sole revenue source of the Financing Authority.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**A. REPORTING ENTITY (CONTINUED)**

Scope of Public Service and Financial Presentation

The Financing Authority was created for the sole purpose of financially assisting the District.

The Financing Authority is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Financing Authority was formed to provide financing assistance to the District for construction and improvement to the District's municipal water system. Upon completion, the District intends to purchase all improvements from the Financing Authority. When the Financing Authority's Certificates of Participation have been paid, title to all Financing Authority property will pass to the District for no additional consideration.

The Financing Authority's financial activity is presented in the financial statements of the District. Certificates of Participation issued by the Financing Authority are included in the long-term liabilities.

**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. The District has not experienced any significant bad debt losses, however a small provision has been made for doubtful accounts and accounts receivable are shown net of the allowance for doubtful accounts.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**E. RESTRICTED CASH**

In December 2016, the Mid-Peninsula Water District issued certificates of participation in the amount of \$18,570,000. All proceeds are held by a fiscal agent and cash is restricted for certain improvements to the District's municipal water system.

**F. UNEARNED REVENUE**

Contractors developing projects, which include construction of facilities to bring water from District mains into the project, deposit a construction advance with the District for an amount estimated to cover the District's costs related to the project. The District accounts for expenditures as construction in progress until the completion of the project, the final inspection and approval of the District, and then it is capitalized as part of capital assets. Revenues are recognized as the project progresses. At the completion of the project, any excess funds are returned to the contractor.

**G. COMPENSATED ABSENCES**

The District has a paid time off (PTO) policy in effect. It is the District's policy to permit employees to accumulate earned by unused vacation, sick leave and compensated time off. The District pays all earned PTO upon termination. All accumulated PTO is recorded as an expense and a liability at the time the benefit is earned.

**H. 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:

|                         |               |
|-------------------------|---------------|
| Utility plant           | 10 - 50 years |
| Vehicles                | 5 years       |
| Machinery and equipment | 7 years       |
| Computer system         | 5 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.

**I. 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.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**J. 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 San Mateo 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 August 30th. 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. Taxes must be levied by the last Tuesday in December for the following collection year. The levy becomes an enforceable lien against the property as of January 1<sup>st</sup> of the levy year.

**K. 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.

**L. 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 Mid-Peninsula 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.

**M. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

For purposes of measuring the District's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan and additions to/deductions from the District Plan's fiduciary net position have been determined on the same basis as they are reported by the District's OPEB plan. For this purpose, the District's plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**MID-PENINSULA 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:

|                                 | <b>2018</b>         | <b>2017</b>         |
|---------------------------------|---------------------|---------------------|
| Petty cash                      | \$ 400              | \$ 400              |
| Cash drawer                     | 200                 | 200                 |
| Sweep account                   | 1,717               | -                   |
| Cash in bank                    | 368,245             | 214,867             |
| Local Agency Investment Fund    | <u>6,547,072</u>    | <u>4,978,363</u>    |
| Total Cash and Cash Equivalents | <u>\$ 6,917,634</u> | <u>\$ 5,193,830</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.

## MID-PENINSULA 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.

##### Restricted Cash With Fiscal Agent

At June 30, 2018, funds totaling \$16,540,967 were held by The Bank of New York Mellon Trust Company, N.A. in various accounts related to the Certificates of Participation issued in December 2016 for the purpose of funding certain improvements to the District's municipal water system.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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### 3. CAPITAL ASSETS

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

|   | Balance<br>June 30, 2017 | Additions           | Deletions         | Balance<br>June 30, 2018 |
|---|--------------------------|---------------------|-------------------|--------------------------|
| <b>Capital assets not subject to depreciation</b> |                          |                     |                   |                          |
| Land  | \$ 1,045,264             | \$ -                | \$ -              | \$ 1,045,264             |
| Construction in progress                          | 1,476,675                | 2,882,855           | 493,802           | 3,865,728                |
| Total capital assets not subject to depreciation  | <u>2,521,939</u>         | <u>2,882,855</u>    | <u>493,802</u>    | <u>4,910,992</u>         |
| <b>Capital assets being depreciated</b>           |                          |                     |                   |                          |
| Utility plant in service                          | 40,244,250               | 918,973             | -                 | 41,163,223               |
| Vehicles  | 1,685,412                | 19,430              | 199,725           | 1,505,117                |
| Computer and telephone systems                    | 253,886                  | 167,402             | -                 | 421,288                  |
| Total capital assets being depreciated            | <u>42,183,548</u>        | <u>1,105,805</u>    | <u>199,725</u>    | <u>43,089,628</u>        |
| <b>Less accumulated depreciation for:</b>         |                          |                     |                   |                          |
| Utility plant in service                          | (24,917,653)             | (742,527)           | -                 | (25,660,180)             |
| Vehicles  | (1,552,398)              | (72,599)            | (199,725)         | (1,425,272)              |
| Computer and telephone systems                    | (197,990)                | (59,907)            | -                 | (257,897)                |
| Total accumulated depreciation                    | <u>(26,668,041)</u>      | <u>(875,033)</u>    | <u>(199,725)</u>  | <u>(27,343,349)</u>      |
| Total capital assets, net of depreciation         | <u>\$ 18,037,446</u>     | <u>\$ 3,113,627</u> | <u>\$ 893,252</u> | <u>\$ 20,657,271</u>     |

Depreciation for the year's ended June 30, 2018 and 2017 was \$875,033 and \$903,950, respectively.

### 4. LONG-TERM LIABILITIES

#### Summary of Long-Term Liabilities

|                               | Balance<br>July 1, 2017 | Additions           | Deductions        | Balance<br>June 30, 2018 | Due<br>Within<br>One Year |
|-------------------------------|-------------------------|---------------------|-------------------|--------------------------|---------------------------|
| Net OPEB Liability            | \$ 68,498               | \$ 1,757,280        | \$ -              | \$ 1,825,778             | \$ -                      |
| Net Pension Liability         | 1,387,977               | 200,963             | -                 | 1,588,940                | -                         |
| Compensated Absences          | 357,661                 | -                   | 69,990            | 287,671                  | -                         |
| Certificates of Participation | <u>18,570,000</u>       | <u>-</u>            | <u>315,000</u>    | <u>18,255,000</u>        | <u>345,000</u>            |
|                               | <u>\$ 20,384,136</u>    | <u>\$ 1,958,243</u> | <u>\$ 384,990</u> | <u>\$ 21,957,389</u>     | <u>\$ 345,000</u>         |

#### Certificates of Participation

In December 2016, the Mid-Peninsula Water District issued certificates of participation in the amount of \$18,570,000 to finance certain improvements to the District's municipal water system. Principal is due annually in December and interest is payable on June 1 and December 1. The certificates have an interest rate of 4% and mature on December 1, 2046. The Certificates of Participation were issued at a premium of \$938,447, which is being amortized over the life of the debt and is recorded as deferred inflows on the statement of net position.

# MID-PENINSULA WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### 4. LONG-TERM LIABILITIES (CONTINUED)

The annual payments required to amortize the Certificates of Participation outstanding as of June 30, 2018, are as follows:

| Year Ended<br>June 30, | Principal            | Interest             | Total                |
|------------------------|----------------------|----------------------|----------------------|
| 2019                   | \$ 345,000           | \$ 723,300           | \$ 1,068,300         |
| 2020                   | 360,000              | 709,200              | 1,069,200            |
| 2021                   | 375,000              | 694,500              | 1,069,500            |
| 2022                   | 385,000              | 679,300              | 1,064,300            |
| 2023                   | 405,000              | 663,500              | 1,068,500            |
| 2024-2028              | 2,270,000            | 3,057,000            | 5,327,000            |
| 2029-2033              | 2,760,000            | 2,555,600            | 5,315,600            |
| 2034-2038              | 3,360,000            | 1,945,600            | 5,305,600            |
| 2039-2043              | 4,090,000            | 1,203,000            | 5,293,000            |
| 2044-2047              | 3,905,000            | 320,100              | 4,225,100            |
|                        | <u>\$ 18,255,000</u> | <u>\$ 12,551,100</u> | <u>\$ 30,806,100</u> |

### 5. EMPLOYEE RETIREMENT PLAN

#### A. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Mid-Peninsula 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 Mid-Peninsula 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.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**A. Plan Description (Continued)**

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

|   | Prior to<br>January 1, 2013 | On or after<br>January 1, 2013 |
|---|-----------------------------|--------------------------------|
| Hire date   |                             |                                |
| Benefit formula                                   | 2% @ 55                     | 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 2.7%                | 1.0% to 2.5%                   |
| Required employee contribution rates              | 7.000%                      | 6.250%                         |
| Required employer contribution rates              | 8.377%                      | 6.555%                         |

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. Mid-Peninsula 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 \$248,731 and \$204,748, respectively.

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

As of June 30, 2018 and 2017, the Mid-Peninsula Water District reported net pension liabilities for its proportionate share of the net pension liability of \$1,588,940 and \$1,387,977, respectively.

Mid-Peninsula 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, 2018, 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. Mid-Peninsula 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:

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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

|                              |                        |
|------------------------------|------------------------|
| Proportion - June 30, 2017   | 0.04031%               |
| Proportion - June 30, 2016   | <u>0.03995%</u>        |
| Change - Increase (Decrease) | <u><u>0.00036%</u></u> |

For the year ended June 30, 2018 and 2017, the District recognized pension expense of \$182,580 and \$232,039, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u><b>June 30, 2018</b></u>               |  |
|---|---|--|
|   | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
| Pension contributions subsequent to measurement date                      | \$ 248,731                                |  |
| Difference between projected and actual experience                        | 2,178                                     | \$ (31,200)                              |
| Difference in actual vs. projected contributions                          | 66,930                                    |  |
| Change in proportion  | 169,414                                   | (18,653)                                 |
| Changes in assumptions  | 270,208                                   | (20,604)                                 |
| Net differences between projected and actual earnings on plan investments | 61,110                                    |  |
| Total   | <u>\$ 818,571</u>                         | <u>\$ (70,457)</u>                       |

\$248,731 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<br/>Ending<br/>June 30</b> |            |
|---|------------|
| 2019                                      | \$ 205,086 |
| 2020                                      | 201,945    |
| 2021                                      | 128,635    |
| 2022                                      | (36,282)   |
| 2023                                      | -          |
| <b>Thereafter</b>                         | <b>-</b>   |

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

**June 30, 2017**

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Pension contributions subsequent to measurement date   | \$ 204,748                                |  |
| Difference between projected and actual experience   | 7,451                                     | \$ (1,707)                               |
| Changes in assumptions   |   | (70,495)                                 |
| Difference between proportionate share of aggregate employer contributions and actual contributions. |   | 138,207                                  |
| Change in employer's proportion and differences between proportionate share of contributions         |   | (151,132)                                |
| Net differences between projected and actual earnings on plan investments                            | 590,934                                   | (224,032)                                |
| <b>Total</b>   | <b>\$ 803,133</b>                         | <b>\$ (309,159)</b>                      |

\$204,748 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<br/>Ending<br/><u>June 30</u></b> |           |
|--|-----------|
| 2018   | \$ 16,874 |
| 2019   | 23,579    |
| 2020   | 157,806   |
| 2021   | 90,967    |
| 2022   | -         |
| <b>Thereafter</b>                                | <b>-</b>  |

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**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, 2017 actuarial valuations were determined using the following actuarial assumptions:

|                               |   |
|-------------------------------|---|
| 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) | 7.50%   |
| Mortality                     | Derived using CalERS' Membership Data for all Funds |

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

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvement using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report based on CalPERS demographic data 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.

## MID-PENINSULA WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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#### **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.

| <b>Asset Class</b>            | <b>Current Strategic Allocation</b> | <b>Real Return Years 1 - 10(a)</b> | <b>Real Return Years 11+(b)</b> |
|-------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| 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%<br>(6.15%) | Current Discount Rate (7.15%) | Discount Rate + 1%<br>(8.15%) |
|------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Plan's Net Pension Liability | \$ 2,479,624                  | \$ 1,588,940                  | \$ 851,260                    |

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

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**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.

**6. DEFERRED COMPENSATION PLAN**

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 offers two plans, one with Lincoln Life and the other with ICMA-RC.

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.

**7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**A. Plan Description**

The District provides a single-employer defined benefit postemployment health care plan for all employees who terminate or retire from the District after achieving age 50 with at least 20 years of service. For employees hired before June 28, 2008, District-paid benefits are available to eligible beneficiaries. The General Manager position qualifies for postemployment healthcare benefits after 7 ½ years of service with the District per the employment agreement.

**B. Funding Policy**

The District has an agreement with the Public Agency Retirement Services (PARS) to be the Trust Administrator to the PARS Public Agencies Post-Retirement Health Care Pan Trust. The amount to be contributed to the trust is determined annually by the board of directors.

**C. Benefits Provided**

The District's plan provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer and the full cost of the benefits is covered by the plan.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**D. Employees Covered by Benefit Terms**

At June 30, 2018, the following employees were covered by the benefit terms:

|  |                  |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 4                |
| Inactive employees entitles to but not yet receiving benefit payments    | -                |
| Active employees   | <u>18</u>        |
|  | <u><u>22</u></u> |

**E. Net OPEB Liability**

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

|                            |  |
|----------------------------|--|
| Salary Increases           | 3.00%  |
| Investment rate of return  | 5.5%, net of OPEB plan investment expense                                      |
| Healthcare cost trend rate | Healthcare costs were assumed to increase according to the following schedule: |

| FYB   | Medical/Rx | Dental/Vision |
|-------|------------|---------------|
| 2017  | 6.0%       | 4.0%          |
| 2018+ | 5.0%       | 4.0%          |

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

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or more than the target rate of return of 5.5 percent.

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**F. Discount Rate**

The discount rate used to measure the total OPEB liability was 5.5 percent. GASB 75 requires a discount rate that reflects the following:

- a. The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be enough to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b. A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan’s projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District’s Total OPEB liability is based on these requirements and the following information:

| Reporting Date | Measurement Date | Long-Term Expected Return | Municipal Bond 20-Year High Grade Rate Index | Discount Rate |
|----------------|------------------|---------------------------|--|---------------|
| July 1, 2017   | July 1, 2017     | 5.50%                     | 3.13%  | 5.50%         |
| June 30, 2018  | June 30, 2018    | 5.50%                     | 3.62%  | 5.50%         |

**G. Changes in the Net OPEB Liability**

|  | Increase (Decrease)         |                                    |                                 |
|--|-----------------------------|------------------------------------|---------------------------------|
|  | Total OPEB Liability<br>(a) | Plan Fiduciary Net Position<br>(b) | Net OPEB Liability<br>(a) - (b) |
|  |                             |                                    |                                 |
| Balances at June 30, 2017                          | \$ 2,978,186                | \$ 778,799                         | \$ 2,199,387                    |
| Changes for the year:                              |                             |                                    |                                 |
| Service cost                                       | 100,557                     | -                                  | 100,557                         |
| Interest   | 162,026                     | -                                  | 162,026                         |
| Differences between expected and actual experience | -                           | -                                  | -                               |
| Contributions - employer                           | -                           | 599,502                            | (599,502)                       |
| Net investment income                              | -                           | 39,388                             | (39,388)                        |
| Benefit payments                                   | (65,392)                    | (65,392)                           | -                               |
| Administrative expense                             | -                           | (2,698)                            | 2,698                           |
| Net changes  | 197,191                     | 570,800                            | (373,609)                       |
| Balances at June 30, 2018                          | \$ 3,175,377                | \$ 1,349,599                       | \$ 1,825,778                    |

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**H. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5 percent) or 1-percentage-point higher (6.5 percent) than the current discount rate:

|                            | 1% Decrease<br><u>(4.5%)</u> | Discount Rate<br><u>(5.5%)</u> | 1% Increase<br><u>(6.5%)</u> |
|----------------------------|------------------------------|--------------------------------|------------------------------|
| Net OPEB liability (asset) | \$ 2,386,224                 | \$ 1,825,778                   | \$ 1,380,081                 |

**I. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5 percent decreasing to 4 percent) or 1-percentage-point higher (7 percent decreasing to 6 percent) than the current healthcare cost trend rates:

|                            | Healthcare Cost                      |                                      |                                      |
|----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                            | 1% Decrease (5%<br>decreasing to 4%) | Trend Rates (6%<br>decreasing to 5%) | 1% Increase (7%<br>decreasing to 6%) |
| Net OPEB liability (asset) | \$ 1,312,594                         | \$ 1,825,778                         | \$ 2,483,445                         |

**J. OPEB plan fiduciary net position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued PARS financial report

**K. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$209,384. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience                          | \$ -                                 | \$ -                                |
| Changes of assumptions  | -                                    | -                                   |
| Net difference between projected and actual return on OPEB plan investments | 16,509                               | -                                   |
| Total   | <u>\$ 16,509</u>                     | <u>\$ -</u>                         |

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**K. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

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

| <b>Year ended June 30</b> | <b>Total Deferred<br/>Outflows/(Inflows)<br/>of Resources</b> |
|---------------------------|---|
| 2019                      | \$ 4,127  |
| 2020                      | 4,127   |
| 2021                      | 4,127   |
| 2022                      | 4,127   |
| 2023                      | 1   |
| Thereafter                | -   |
| <b>Total</b>              | <b>\$ 16,509</b>  |

**L. Payable to the OPEB Plan**

At June 30, 2018, the District had no outstanding amount of contributions payable to the plan.

## MID-PENINSULA WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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#### 8. 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<br>September 30, 2017 | BAWSCA<br>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               |

## MID-PENINSULA WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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#### 9. COMMITMENTS

##### Purchase commitment

The District entered into an agreement with the City and County of San Francisco to purchase water to be delivered to the District's customers. This is a 25 year agreement that was effective July 1, 2009 and ends on June 30, 2034. The cost of purchasing water through this agreement represented approximately 51% and 49% of the District's operating costs for the years ended June 30, 2018 and 2017, respectively.

#### 10. LEASE REVENUES

The District contracted with five different companies to lease land for communication towers on those properties and had one lease for an office building. The building lease was cancelled in December 2015. The remaining agreements are for multiple years and require monthly payments based on the contracted amounts. Lease revenues for the years ended June 30, 2018 and 2017 totaled \$151,714 and \$141,949, respectively. A schedule of future lease revenues was not available as of the date of these financial statements.

#### 11. PRIOR PERIOD RESTATEMENT

The District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to the District's other postemployment benefit plan described in Note 7. This change in accounting principle required a prior period adjustment which decreased the beginning net position by \$2,130,889.

#### 12. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2018 financial statements for subsequent events through October 29, 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**

**MID-PENINSULA WATER DISTRICT**

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

**JUNE 30, 2018**

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|   | <b>Fiscal Year<sup>(1)</sup></b> |                      |                      |                      |
|---|----------------------------------|----------------------|----------------------|----------------------|
|   | <b>June 30, 2014</b>             | <b>June 30, 2015</b> | <b>June 30, 2016</b> | <b>June 30, 2017</b> |
| Proportion of the net pension liability   | 0.04525%                         | 0.04059%             | 0.03995%             | 0.04031%             |
| Proportionate share of the net pension liability  | \$ 1,118,234                     | \$ 1,113,540         | \$ 1,387,977         | \$ 1,588,940         |
| Covered-employee payroll <sup>(2)</sup>   | \$ 1,178,386                     | \$ 1,457,920         | \$ 1,565,051         | \$ 1,628,722         |
| Proportionate share of the net pension liability as percentage<br>of covered-employee payroll | 94.90%                           | 76.38%               | 88.69%               | 97.56%               |
| Plans fiduciary net position as a percentage of the total<br>pension liability                | 77.06%                           | 79.89%               | 75.41%               | 75.41%               |
| Proportionate share of aggregate employer contributions <sup>(3)</sup>                        | \$ 101,596                       | \$ 107,544           | \$ 133,318           | \$ 153,703           |

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

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

<sup>(3)</sup> 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.

**MID-PENINSULA WATER DISTRICT**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**JUNE 30, 2018**

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|   | Fiscal Year <sup>(1)</sup> |                  |                  |                  |
|---|----------------------------|------------------|------------------|------------------|
|   | 2013-14                    | 2014-15          | 2015-16          | 2016-17          |
| Actuarially Determined Contribution (2)                                   | \$ 186,823                 | \$ 189,429       | \$ 213,992       | \$ 244,660       |
| Contributions in relation to the actuarially determined contributions (2) | <u>(186,823)</u>           | <u>(203,461)</u> | <u>(204,748)</u> | <u>(248,731)</u> |
| Contribution deficiency (excess)  | <u>\$ -</u>                | <u>(14,032)</u>  | <u>9,244</u>     | <u>(4,071)</u>   |
| Covered-employee payroll (3,4)  | \$ 1,178,386               | \$ 1,457,920     | \$ 1,565,051     | \$ 1,628,722     |
| Contributions as a percentage of covered-employee payroll (3)             | 15.85%                     | 12.99%           | 13.67%           | 15.02%           |

(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 employer.

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

**MID-PENINSULA WATER DISTRICT**

**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**

JUNE 30, 2018

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|  | <b><u>2018</u></b>  |
|--|---------------------|
| <b>Total OPEB liability</b>  |                     |
| Service cost   | \$ 100,557          |
| Interest   | 162,026             |
| Changes of benefit terms   | -                   |
| Differences between expected and actual experience                             | -                   |
| Changes of assumptions   | -                   |
| Benefit payments   | <u>(65,392)</u>     |
| <b>Net change in total OPEB liability</b>                                      | <u>197,191</u>      |
| <b>Total OPEB liability - beginning</b>  | <u>2,978,186</u>    |
| <b>Total OPEB liability - ending (a)</b>                                       | <u>\$ 3,175,377</u> |
| <br><b>Plan fiduciary net position</b>   |                     |
| Contributions - employer   | \$ 599,502          |
| Net investment income  | 39,388              |
| Benefit paymens  | (65,392)            |
| Administrative expense   | <u>(2,698)</u>      |
| <b>Net change in plan fiduciary net position</b>                               | <u>570,800</u>      |
| <b>Plan fiduciary net position - beginning</b>                                 | <u>778,799</u>      |
| <b>Plan fiduciary net position - ending (b)</b>                                | <u>\$ 1,349,599</u> |
| <b>District's net OPEB liability - ending (a) - (b)</b>                        | <u>\$ 1,825,778</u> |
| <br>Plan fiduciary net position as a percentage of the total<br>OPEB liability | 74%                 |
| Covered-employee payroll   | \$ 1,695,877        |
| District's net OPEB liability as a percentage of covered-<br>employee payroll  | 108%                |

**MID-PENINSULA WATER DISTRICT**

**SCHEDULE OF OPEB CONTRIBUTIONS**

**JUNE 30, 2018**

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|  | <b>2018</b>       |
|--|-------------------|
| Actuarially determined contribution                                | \$ 207,743        |
| Contributions in relation to the actuarially required contribution | <u>\$ 599,502</u> |
| Contribution deficiency (excess)                                   | <u>\$ 807,245</u> |
| Covered-employee payroll   | \$ 1,695,877      |
| Contributions as a percentage of covered-employee payroll          | 12.25%            |

**MID-PENINSULA WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

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**1. PURPOSE OF SCHEDULES**

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

Changes of Assumptions

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

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

B - Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

C - Schedule of the Changes in the Net OPEB Liability and Related Ratios

*Benefit changes.* There were no benefit changes during the year.

*Change of assumptions.* There was a change in the actuarial cost method from projected unit credit to entry age, level percent of pay, as required by GASB 75.

Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

D - Schedule of OPEB Contributions

Valuation date: July 1, 2017

Actuarially determined contribution rates are calculated as of June 30, 2017.

Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

MID-PENINSULA WATER DISTRICT

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2018

#### **1. PURPOSE OF SCHEDULES (CONTINUED)**

Methods and assumptions used to determine contribution rates:

|                             |   |
|-----------------------------|---|
| Actuarial cost method       | Entry age   |
| Amortization method         | Level percent of pay                              |
| Amortization period         | 30 years  |
| Asset valuation method      | Fair value  |
| Healthcare cost trend rates | 6.0% for 2017 and 5.0% thereafter                 |
| Salary increases            | 3.00 percent                                      |
| Investment rate of return   | 5.5 percent, net of OPEB plan investment expense  |
| Retirement age              | Retirement ages are based on the following table: |

| Age | Percent<br>Retiring |
|-----|---------------------|
| 50  | 2.0%                |
| 51  | 3.0%                |
| 52  | 4.0%                |
| 53  | 5.0%                |
| 54  | 6.0%                |
| 55  | 8.0%                |
| 56  | 10.0%               |
| 57  | 12.0%               |
| 58  | 14.0%               |
| 59  | 16.0%               |
| 60  | 18.0%               |
| 61  | 20.0%               |
| 62  | 21.0%               |
| 63  | 22.0%               |
| 64  | 24.0%               |
| 65  | 100.0%              |

|           |   |
|-----------|---|
| Mortality | Pre-retirement - RP-2014 Employee Mortality,<br>without projection Post-retirement - RP-2014<br>Healthy Annuitant Mortality, without projection |
|-----------|---|

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



**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  
Mid-Peninsula Water District  
Belmont, 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 Mid-Peninsula Water District (the "District"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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**

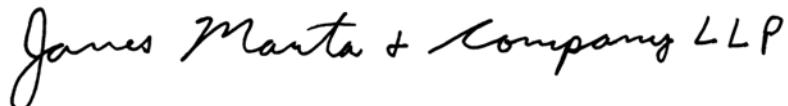
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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**

Mid-Peninsula Water District's response to the findings identified in our audit is 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 black ink that reads "James Marta & Company LLP". The signature is fluid and cursive, with "James Marta" on the first line and "& Company LLP" on the second line.

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
October 29, 2018

**MID-PENINSULA WATER DISTRICT**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**JUNE 30, 2018**

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**2018-01 Audit Adjustments – Significant Deficiency**

Observation:

Our audit procedures identified an accrual of interest on the certificates of participation for June 2018 that was accrued twice in the amount of \$365,100. We also identified an invoice that was received and paid in July 2018, but was for services performed in May on a construction project in the amount of \$176,397. This invoice should have been accrued in accounts payable.

Recommendation:

The principal and interest payments and accruals on the certificates of participation should be reconciled annually to the debt service schedule provided at the time of issuance. This would ensure that all payments and accruals are properly accounted for.

Invoices received after year end should be reviewed for the date of services and be recorded in the appropriate fiscal year.

Management Response:

Accrual of Interest on the certificates of participation for June 2018 for \$365,100 was an oversight. It was inadvertently entered twice. We have put controls in place to ensure a duplicate entry cannot be entered into the system without an alert to avoid this from happening in the future.

Invoice dated 5/31/18 from Stoloski & Gonzalez, Inc. for the 2017 WMR Project in the amount of \$176,397 was received on July 2, 2018, and processed for payment on that day. Because we pay projects out of COP funds, this was not entered into the accounting system until month end, when the bank reconciliation took place. As a result, this invoice was not recognized in May 2018, since the year end was closed and the field testing for the audit had been performed. This was later discovered when the auditors had follow up questions. We have changed our process for recording COP invoices which will ensure this does not happen again.