Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018

Hemet, California

Mission Statement

The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient and responsible manner, now and into the future.

Board of Directors as of June 30, 2019

Name		Title	Elected/ Appointed	Current Term
Frank D. Gorman	Division II	President	Elected	01/2017 - 12/2020
Larry Minor	Division IV	Vice-President	Elected	01/2019 - 12/2022
Todd A Foutz	Division III	Secretary/Treasurer	Elected	01/2019 - 12/2022
Frank Marshall III	Division I	Director	Elected	01/2017 - 12/2020
Steven A. Pastor	Division V	Director	Appointed	01/2018 - 12/2020

Michael A. Gow, General Manager
Lake Hemet Municipal Water District
26385 Fairview Avenue
Hemet, California 92544
(951) 658-3241 – www.lhmwd.org

Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018

Lake Hemet Municipal Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018

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Introductory Section

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January 16, 2020

Board of Directors
Lake Hemet Municipal Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Lake Hemet Municipal Water District (District) for the fiscal years ended June 30, 2019 and 2018, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe to be necessary to enhance the understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, the District's audited basic financial statements with accompanying Notes, and Supplemental Information.

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

District Structure and Leadership

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Lake Hemet Municipal Water District employs a full-time staff of 53 employees.

District Structure and Leadership, continued

The District's Board of Directors meets on the 3rd Thursday of each of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District is located in Riverside County, California and covers an area of approximately 26 square miles, providing water distribution and sewage collection within its boundaries to the communities of Hemet, San Jacinto, and adjacent unincorporated areas of Riverside County. The customer base is approximately 95% residential, 1% agricultural and 4% commercial. The District currently provides water to over 14,180 connections and receives its water supply from four sources 1) local ground water, 2) Lake Hemet, 3) stream flow when available, 4) Eastern Municipal Water District who in turn purchases from Metropolitan Water District and 5) leased ground water wells.

Economic Condition and Outlook

The District's administrative office is located in the unincorporated area of Riverside County, Valle Vista. The inland area has witnessed a slow economic recovery after several years of severe recessionary pressures.

California's water supply continues to be a concern due to projected population increases and a decrease in water supply levels. This concern has increased interest in conservation and in irrigation methods and systems.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient, and responsible manner, now and into the future."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain, and upgrade the water and wastewater systems facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Internal Control Structure

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

Budgetary Control

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield.

Water and Sewer Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water and wastewater rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Wastewater rates are charged to residential, commercial and institutional customers.

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Lake Hemet Municipal Water District's fiscal policies.

Respectfully submitted,

Michael Gow
General Manager/Chief Engineer

LeAnn Markham
Administrative Services Manager

Financial Section

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
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Independent Auditor's Report

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Hemet Municipal Water District (District), which comprises the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Independent Auditor's Report, continued

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Lake Hemet Municipal Water District, as of June 30, 2019 and 2018, and the respective changes in net position, and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 10 to the financial statements, in fiscal year 2018, the District adopted the provisions of GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Consequently, the beginning total OPEB liability was recorded and net position was restated. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and the required supplementary information on pages 50 to 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

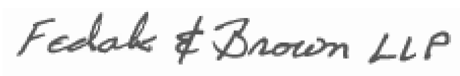
Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, and the supplemental information schedules on pages 53 through 55, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 56 and 57.



Fedak & Brown LLP
Cypress, California
January 16, 2020

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Lake Hemet Municipal Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2019, the District's net position increased 6.22% or $3,162,227 to $53,998,051, primarily due to net income of $3,140,603 from operations and $21,624 in capital contributions. In fiscal year 2018, the District's net position decreased 3.23% or $1,698,713 to $50,835,824, primarily due to a net loss of $186,437 from operations, which was offset by $173,582 in capital contributions and the effect of a $1,685,858 restatement to net position related to the implementation of GASB 75.
- In fiscal year 2019, the District's total revenues increased 1.27% or $267,040 to $21,262,243. In fiscal year 2018, the District's total revenues increased 11.79% or $2,214,335 to $20,995,203.
- In fiscal year 2019, the District's total expenses decreased 14.45% or $3,060,000 to $18,121,640. In fiscal year 2018, the District's total expenses increased 2.34% or $483,953 to $21,181,640.

Required Financial Statements

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

The Statements of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, and the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Financial Analysis of the District, continued

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 18 through 49.

Statements of Net Position

Condensed Statements of Net Position

	2019	2018	Change	2017	Change
Assets:					
Current assets	$ 29,695,830	23,412,584	6,283,246	21,702,795	1,709,789
Non-current assets	245,000	252,500	(7,500)	260,000	(7,500)
Capital assets, net	53,602,667	55,048,342	(1,445,675)	56,366,122	(1,317,780)
Total assets	83,543,497	78,713,426	4,830,071	78,328,917	384,509
Deferred outflows of resources	2,448,521	3,086,982	(638,461)	1,805,282	1,281,700
Liabilities:					
Current liabilities	4,541,895	4,036,824	505,071	3,871,654	165,170
Non-current liabilities	26,925,694	26,381,375	544,319	23,394,643	2,986,732
Total liabilities	31,467,589	30,418,199	1,049,390	27,266,297	3,151,902
Deferred inflows of resources	526,378	546,385	(20,007)	333,365	213,020
Net position:					
Net investment in capital assets	39,318,384	39,729,863	(411,479)	40,057,765	(327,902)
Restricted	2,500,823	2,479,492	21,331	2,436,264	43,228
Unrestricted	12,178,844	8,626,469	3,552,375	10,040,508	(1,414,039)
Total net position	$ 53,998,051	50,835,824	3,162,227	52,534,537	(1,698,713)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $53,998,051 and $50,835,824 and as of June 30, 2019 and 2018, respectively. The District's total net position is made up of three components: (1) net investment of capital assets; (2) restricted net position; (3) unrestricted net position.

By far the largest portion of the District's net position (72.81% and 78.15% as of June 30, 2019 and 2018, respectively) reflects the District's net investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

Statements of Net Position, continued

At the end of fiscal years 2019 and 2018, the District showed a positive balance in its unrestricted net position of $12,178,844 and $8,626,469, respectively, which may be utilized in future years. See note 9 for further information.

Statements of Revenues, Expenses and Changes in Net Position

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

		2019	2018	Change	2017	Change
Revenue:						
Operating revenues	$	18,374,747	18,637,577	(262,830)	16,730,271	1,907,306
Non-operating revenue		2,887,496	2,357,626	529,870	2,050,597	307,029
Total revenue		21,262,243	20,995,203	267,040	18,780,868	2,214,335
Expense:						
Operating expense		14,485,530	17,074,559	(2,589,029)	16,532,225	542,334
Depreciation and amortization		2,782,718	3,245,820	(463,102)	3,224,466	21,354
Non-operating expense		853,392	861,261	(7,869)	940,996	(79,735)
Total expense		18,121,640	21,181,640	(3,060,000)	20,697,687	483,953
Net income (loss) before capital contributions		3,140,603	(186,437)	3,327,040	(1,916,819)	1,730,382
Capital contributions		21,624	173,582	(151,958)	63,548	110,034
Change in net position		3,162,227	(12,855)	3,175,082	(1,853,271)	1,840,416
Net position – beginning of period as previously stated		50,835,824	52,534,537	(1,698,713)	54,387,808	(1,853,271)
Prior period adjustment (note 10)		-	(1,685,858)	1,685,858	-	(1,685,858)
Net position – beginning of period as restated		50,835,824	50,848,679	(12,855)	54,387,808	(3,539,129)
Net position – end of period	$	53,998,051	50,835,824	3,162,227	52,534,537	(1,698,713)

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

In fiscal year 2019, the District's net position increased 6.22% or $3,162,227 to $53,998,051, primarily due to net income of $3,140,603 from operations and $21,624 in capital contributions. In fiscal year 2018, the District's net position decreased 3.23% or $1,698,713 to $50,835,824, primarily due to a net loss of $186,437 from operations, which was offset by $173,582 in capital contributions and the effect of a $1,685,858 restatement to net position related to the implementation of GASB 75.

In fiscal year 2019, the District's total revenues increased 1.27% or $267,040 to $21,262,243. Total operating revenue decreased 1.41% or $262,830 to $18,374,747, primarily due to decreases of $254,568 in water surcharges and assessments and $42,266 in other charges, which were offset by an increase of $39,621 in water consumption sales. Total non-operating revenue increased 22.47% or $529,870 to $2,887,496, primarily due to increases of $396,779 in investment earnings, $84,251 in property taxes, $49,076 in earnings from Lake Hemet Campground operations, $30,615 in gain on disposal of assets, which were offset by a decrease of $30,851 in rental income.

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

In fiscal year 2018, the District's total revenues increased 11.79% or $2,214,335 to $20,995,203. Total operating revenue increased 11.40% or $1,907,306 to $18,637,577, primarily due to increases of $1,727,004 in water consumption sales and $164,664 in water surcharges and assessments. Total non-operating revenue increased 14.97% or $307,029 to $2,357,626, primarily due to increases of $91,166 in property taxes, $81,336 in earnings from Lake Hemet Campground operations, $58,756 in investment earnings, $40,803 in rental income and $34,968 in gain on disposal of assets.

In fiscal year 2019, the District's total expenses decreased 14.45% or $3,060,000 to $18,121,640. Total operating expense decreased 15.16% or $2,589,029 to $14,485,530 primarily due to decreases of $1,630,192 in source of supply, $824,303 in general and administrative expense, $192,291 in pumping expense and $56,214 in transmission and distribution, which were offset by an increase of $100,912 in treatment expense. Total non-operating expense decreased 0.91% or $7,869 to $853,392, primarily due to a decrease of $38,091 in interest expense, offset by an increase of $30,222 in other non-operating expense, net.

In fiscal year 2018, the District's total expenses increased 2.34% or $483,953 to $21,181,640. Total operating expense increased 3.28% or $542,334 to $17,074,559 primarily due to increases of $995,792 in general and administrative expenses, which were offset by decreases of $265,092 in transmission and distribution and $163,939 source of supply. Total non-operating expense decreased 8.47% or $79,735 to $861,261, primarily due to decreases of $36,804 in interest expense and $42,931 in other non-operating expense, net.

Capital Assets Administration

At the end of fiscal years 2019 and 2018, the District's investment in capital assets (net of accumulated depreciation) amounted to $53,602,667 and $55,048,342, respectively. This investment in capital assets includes land, transmission and distribution systems, collection systems, buildings and structures, equipment, and vehicles, etc.

Changes in capital asset amounts for 2019 were as follows:

	Balance 2018	Reclassification/ Additions	Transfers/ Deletions	Balance 2019
Non-depreciable assets	$ 1,829,317	426,693	-	2,256,010
Depreciable assets	106,752,163	1,036,428	(141,016)	107,647,575
Accumulated depreciation	(53,533,138)	(2,908,033)	140,253	(56,300,918)
Total capital assets, net	$ 55,048,342			53,602,667

Major capital assets additions during the year included upgrades to the District's water operations production; fire hydrants, services and meters; distribution and transmission systems; pumping and purification and general equipment and buildings, structures and grounds. (See note 4 for further discussion)

Capital Assets Administration, continued

Changes in capital asset amounts for 2018 were as follows:

		Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Non-depreciable assets	$	1,186,975	987,747	(345,405)	1,829,317
Depreciable assets		105,520,907	1,285,698	(54,442)	106,752,163
Accumulated depreciation		(50,341,760)	(3,245,820)	54,442	(53,533,138)
Total capital assets, net	$	56,366,122			55,048,342

Major capital assets additions during the year included upgrades to the District's water operations production; fire hydrants, services and meters; distribution and transmission systems; pumping and purification and general equipment. (See note 4 for further discussion)

Debt Administration

Changes in long-term debt amounts for 2019 were as follows:

		Balance 2018	Additions	Principal Payments	Balance 2019
Notes payable	$	6,312,565	-	(565,161)	5,747,404
Loan payable		1,558,911	-	(224,386)	1,334,525
Bond payable		1,160,000	-	(70,000)	1,090,000
COP's payable		6,800,000	-	(165,000)	6,635,000
Total long-term debt	$	15,831,476	-	(1,024,547)	14,806,929

Changes in long-term debt amounts for 2018 were as follows:

		Balance 2017	Additions	Principal Payments	Balance 2018
Notes payable	$	6,854,054	-	(541,489)	6,312,565
Loan payable		1,778,006	-	(219,095)	1,558,911
Bond payable		1,225,000	-	(65,000)	1,160,000
COP's payable		6,960,000	-	(160,000)	6,800,000
Total long-term debt	$	16,817,060	-	(985,584)	15,831,476

(See note 6 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the General Manager, Michael Gow at Lake Hemet Municipal Water District, 26385 Fairview Avenue Hemet, California 92544 or (951) 658-3241.

Basic Financial Statements

Lake Hemet Municipal Water District
Statements of Net Position
June 30, 2019 and 2018

		2019	2018
Current assets:			
Cash and cash equivalents (note 2)	$	18,567,221	12,430,708
Cash and cash equivalents – restricted (note 2)		2,244,540	2,212,347
Investments (note 2)		5,590,445	5,376,497
Accrued interest receivable		44,435	28,061
Accounts receivable – water sales, net		2,487,634	2,628,804
Property taxes and assessments receivable		80,930	69,312
Property taxes and assessments receivable – restricted		3,782	7,146
Note receivable – restricted (note 3)		7,500	7,500
Materials and supplies inventory		303,013	300,463
Prepaid expenses and other assets		366,330	351,746
Total current assets		29,695,830	23,412,584
Non-current assets:			
Note receivable – restricted (note 3)		245,000	252,500
Capital assets – not being depreciated (note 4)		2,256,010	1,829,317
Depreciable capital assets, net (note 4)		51,346,657	53,219,025
Total non-current assets		53,847,667	55,300,842
Total assets		83,543,497	78,713,426
Deferred outflows of resources			
Deferred other post-employment benefits outflows (note 7)		85,564	-
Deferred pension outflows (note 8)		2,362,957	3,086,982
Total deferred outflows of resources	$	2,448,521	3,086,982

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Net Position, continued
June 30, 2019 and 2018

		2019	2018
Current liabilities:			
Accounts payable and accrued expenses	$	2,389,865	1,965,289
Accrued salaries and related payables		153,787	150,851
Customer deposits		649,118	585,750
Accrued interest payable – restricted		149,899	159,500
Long-term liabilities – due within one year:			
Compensated absences (note 5)		139,611	150,887
Notes payable (note 6)		589,872	565,161
Loan payable (note 6)		229,743	224,386
Bonds payable (note 6)		70,000	70,000
Certificates of Participation (note 6)		170,000	165,000
Total current liabilities		4,541,895	4,036,824
Non-current liabilities:			
Unearned revenue – construction deposits		1,603,658	63,607
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)		209,417	226,330
Notes payable (note 6)		5,157,532	5,747,404
Loan payable (note 6)		1,104,782	1,334,525
Bonds payable (note 6)		1,020,000	1,090,000
Certificates of Participation (note 6)		6,465,000	6,635,000
Total other post-employment benefits liability (note 7)		2,063,521	1,899,925
Net pension liability (note 8)		9,301,784	9,384,584
Total non-current liabilities		26,925,694	26,381,375
Total liabilities		31,467,589	30,418,199
Deferred inflows of resources			
Deferred pension inflows (note 8)		526,378	546,385
Total deferred inflows of resources		526,378	546,385
Net position: (note 9)			
Net investment in capital assets		39,318,384	39,729,863
Restricted for capital projects		1,845,066	1,834,388
Restricted for debt service		655,757	645,104
Unrestricted		12,178,844	8,626,469
Total net position	$	53,998,051	50,835,824

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018

		2019	2018
Operating revenues:			
Water consumption sales:			
Residential and commercial	$	11,773,559	12,140,099
Irrigation		4,048,150	3,641,989
Surcharges and assessments – water		1,370,966	1,625,534
Other charges		457,662	499,928
Sewer services		724,410	730,027
Total operating revenues		18,374,747	18,637,577
Operating expenses:			
Source of supply		5,644,965	7,275,157
Pumping		1,111,596	1,303,887
Treatment		444,325	343,413
Transmission and distribution		1,316,974	1,373,188
Customer accounts		161,043	147,383
Sewer		225,584	226,185
General and administrative		5,581,043	6,405,346
Total operating expenses		14,485,530	17,074,559
Operating income before depreciation expense		3,889,217	1,563,018
Depreciation expense		(2,782,718)	(3,245,820)
Operating income (loss)		1,106,499	(1,682,802)
Non-operating revenue (expense):			
Property taxes		1,779,914	1,695,663
Net income from Lake Hemet Campground operations		452,990	403,914
Rental income, net		96,474	127,325
Investment earnings		515,550	118,771
Interest expense		(738,277)	(776,368)
Gain on disposal of assets		42,568	11,953
Other non-operating expense, net		(115,115)	(84,893)
Total non-operating revenues, net		2,034,104	1,496,365
Net loss before capital contributions		3,140,603	(186,437)
Capital contributions:			
Donations in aid of construction		14,104	166,613
Connection fees		7,520	6,969
Total contributed capital		21,624	173,582
Change in net position		3,162,227	(12,855)
Net position, beginning of period, as previously stated		50,835,824	52,534,537
Prior period adjustment (note 10)		-	(1,685,858)
Net position, beginning of period, as restated		50,835,824	50,848,679
Net position, end of period	$	53,998,051	50,835,824

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Receipts from customers for water sales and services	$	18,579,285	18,709,799
Payment to employees for salaries and wages		(4,407,095)	(4,672,812)
Payments to vendors for materials and services		(7,456,945)	(11,082,540)
Net cash provided by operating activities		6,715,245	2,954,447
Cash flows from non-capital financing activities:			
Property tax revenue		1,771,660	1,696,427
Net income from Lake Hemet Campground operations		452,990	403,914
Rental income, net		96,474	127,325
Other non-operating expense, net		(115,115)	(84,893)
Net cash provided by non-capital financing activities		2,206,009	2,142,773
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(1,294,475)	(1,916,087)
Proceeds from capital contributions		21,624	173,582
Proceeds from Beaumont concrete settlement		7,500	7,500
Principal payments on notes payable		(565,161)	(541,489)
Principal payments on loans payable		(224,386)	(219,095)
Principal payments on bonds payable		(70,000)	(65,000)
Principal payments on certificates of participation		(165,000)	(160,000)
Interest paid on long-term debt		(747,878)	(785,655)
Net cash used in capital and related financing activiti		(3,037,776)	(3,506,244)
Cash flows from investing activities:			
Investment earnings		285,228	82,450
Net cash provided by investing activities		285,228	82,450
Net increase in cash and cash equivalents		6,168,706	1,673,426
Cash and cash equivalents, beginning of year		14,643,055	12,969,629
Cash and cash equivalents, end of year	$	20,811,761	14,643,055

Reconciliation of cash and cash equivalents to statements of financial position:

		2019	2018
Cash and cash equivalents	$	18,567,221	12,430,708
Cash and cash equivalents – restricted		2,244,540	2,212,347
Total cash and cash equivalents	$	20,811,761	14,643,055

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2019 and 2018

		2019	2018
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	1,106,499	(1,682,802)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation and amortization		2,782,718	3,245,820
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
(Increase) decrease in assets and deferred outflows of resources:			
Accounts receivable – water sales, net		141,170	16,897
Materials and supplies inventory		(2,550)	16,899
Prepaid expenses and other assets		(14,584)	(34,602)
Deferred other post-employment benefits outflows		(85,564)	-
Deferred pension outflows		724,025	(1,281,700)
Increase (decrease) in liabilities and deferred inflows of resources:			
Accounts payable and accrued expenses		424,576	104,714
Accrued salaries and related payables		2,936	(13,476)
Customer deposits		63,368	55,325
Unearned revenue - construction deposits		1,540,051	(571)
Compensated absences		(28,189)	(27,672)
Net OPEB liability		163,596	112,326
Net pension liability		(82,800)	2,230,269
Deferred inflows of resources		(20,007)	213,020
Total adjustments		5,608,746	4,637,249
Net cash provided by operating activities	$	6,715,245	2,954,447
Non-cash investing, capital and financing transactions:			
Change in fair-market value of investments	$	20,138	(95,901)

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). Revenues and expenses are recognized on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water and sewer service charges based on cycle billings preformed monthly with the exception of the Garner Valley area which is billed on a bi-monthly basis. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – Certain Asset Retirement Obligations. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the General Manager to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

3. Investments and Investment Policy, continued

- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3 –** Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. When Management deems a customer account uncollectable, the District uses the direct method for the write-off of those accounts.

5. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

6. Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $3,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

• Source of Supply	33.3 years
• Power Plant	33.3 years
• Pumping Equipment	20.0 years
• Water Treatment Equipment	33.3 years
• Transmission & Distribution Plant	33.3 years
• General Plant	5.0 to 33.3 years

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

8. Deferred Outflows of Resources

The statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow for the changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with other post-employment benefits through the Plan.

Pensions

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year.
- Deferred outflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred outflow for the net changes due to differences in the changes in proportions of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

9. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net position. The District uses restricted resources prior to using unrestricted resources to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

10. Compensated Absences

The District's policy is to permit employees to accumulate vacation at the rate of eighty (80) hours per anniversary year (6.66 hours per month) for the first five (5) years of continuous service for full-time employees. Vacation accrual increases eight (8) hours for each full year of continuous service after five (5) years until completion of ten (10) years of continuous service. After completion of eleven (11) full years of continuous service, vacation leave shall accrue at the rate of one hundred thirty six (136) hours per year. After completion of twelve (12) years of continuous service, vacation shall accrue at the rate of one hundred sixty (160) hours per year. Vacation accrual does not vest until completion of the year for which it was earned. Vacation leave accumulation carried over from previous year shall not exceed twenty (20) days. Vacation leave shall be scheduled at the District's discretion. If an employee is unable to take vacation due to the needs of the District, the employee shall be paid for any loss of vacation time.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

10. Compensated Absences, continued

Sick leave shall accrue year after year above the 96 hours accrued in that year. Sick leave shall accrue at the rate of eight hours per month for full time employees commencing on January 1 of each year. Sick leave shall accrue on a pro rata basis. The employee may use sick leave prior to its accrual; however, in the event the employee is terminated or retires, employee authorizes District to deduct any paid, but unaccrued sick leave from the employee's final paycheck.

11. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the total 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 Retiree Health Plan and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with 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.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Dates: June 30, 2018
- Measurement Dates: June 30, 2018
- Measurement Periods: July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018

12. 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 District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Dates: June 30, 2017 and 2016
- Measurement Dates: June 30, 2018 and 2017
- Measurement Periods: July 1, 2017 to June 30, 2018 and July 1, 2016 to June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

13. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, deferred inflows of resources, represents an acquisition of resources applicable to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

Pensions

- Deferred inflow for the net difference in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

14. Deposit Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District.

15. Water and Sewer Sales

The District recognizes water and sewer services charges based on cycle billings rendered to the customers on a monthly basis with the exception of the Garner Valley area which is billed on a bi-monthly basis.

16. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

17. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

- **Restricted Net position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

18. Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

19. Reclassification

The District has reclassified certain prior year information to conform with current year presentations.

(2) Cash and Investments

Cash and investments as of June 30 are classified in the accompanying financial statements as follows:

		2019	2018
Cash and cash equivalents	$	18,567,221	12,430,708
Cash and cash equivalents – restricted		2,244,540	2,212,347
Investments		5,590,445	5,376,497
Total cash and investments	$	26,402,206	20,019,552

Cash and cash equivalents as of June 30 consist of the following:

		2019	2018
Cash on hand	$	1,150	1,150
Deposits with financial institutions		11,740,148	5,791,107
Sub-total cash and cash equivalents		11,741,298	5,792,257

Investment as of June 30 consist of the following:

		2019	2018
Deposits held with California Local Agency Investment Fund (LAIF)		6,965,613	6,790,874
Deposits with CalTrust:			
Short Term Fund		533,356	511,707
Medium Term Fund		5,057,089	4,864,790
Total held with CalTrust		5,590,445	5,376,497
Deposits held with trustee:			
Money Market		1,971,740	1,927,817
Limited Obligation Improvement Bonds		133,110	132,107
Sub-total investments		14,660,908	14,227,295
Total cash and investments	$	26,402,206	20,019,552

As of June 30, the District's authorized deposits had the following average maturities:

	2019	2018
Deposits held with LAIF	173 days	193 days
Deposits held with CalTrust Short Term Fund	332 days	318 days
Deposits held with CalTrust Medium Term Fund	788 days	763 days

(2) Cash and Investments, continued

Investment in Investment Trust of California

CalTrust is organized as a Joint Powers Attorney. CalTrust is a program established by public agencies in California for the purpose of pooling and investing local agency funds – operating reserves as well as bond proceeds. Any California local agency may participate in the Trust and invest its funds, and in the case of counties, the funds of other local agencies that have invested with the County Treasurer's office. Funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular account in which they invest. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolio is prohibited.

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

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee.

The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	None	None	None
U.S. Agency and Sponsored Enterprise Securities	None	None	None
State Obligations			
or Political Subdivision of States	None	None	None
Bankers' Acceptances	None	None	None
Negotiable Certificates of Deposit	None	None	None
Commercial Paper	None	None	None
Guaranteed Investment Contracts	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	None	None	None
Local Agency Investment Fund - LAIF	None	None	None

The table on the following page identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

(2) Cash and Investments

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	No	None	None
U.S. Agency and Sponsored Enterprise Securities	No	None	None
Bankers' Acceptances	No	40%	None
Negotiable Certificates of Deposit	No	30%	None
Commercial Paper	No	25%	None
Repurchase Agreements	No	None	None
Reverse Repurchase Agreements	No	20%	None
Medium-Term Notes	No	30%	None
Mortgage Pass-Though Securities	No	None	None
Local Agency Investment Fund - LAIF	Yes	None	$50,000,000
Local Agency Bonds	No	None	None
Mutual Funds	No	20%	None
Money Market Mutual Funds	Yes	15%	N/A
County Pooled Investment Funds	No	None	None
Joint Powers Authority (CalTRUST)	No	None	None

Investment in State Investment Pool

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

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000 at June 30, 2019 and 2018, respectively, are federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Interest Rate Risk

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

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

Maturities of investments at June 30, 2019, were as follows:

		Remaining Maturity	
Investment Type		**Total**	**12 Months Or Less**
Local Agency Investment Fund (LAIF)	$	6,965,613	6,965,613
CalTrust Investment Fund		5,590,445	5,590,445
Money Market Funds		1,971,740	1,971,740
Limited Obligation Improvement Bonds		133,110	133,110
Total	$	14,660,908	14,660,908

Maturities of investments at June 30, 2018, were as follows:

		Remaining Maturity	
Investment Type		**Total**	**12 Months Or Less**
Local Agency Investment Fund (LAIF)	$	6,790,874	6,790,874
CalTrust Investment Fund		5,376,497	5,376,497
Money Market Funds		1,927,817	1,927,817
Limited Obligation Improvement Bonds		132,107	132,107
Total	$	14,227,295	14,227,295

(2) Cash and Investments, continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2019, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	6,965,613	N/A	$	-	-	6,965,613
CalTrust Investment Fund		5,590,445	AAf		-	5,590,445	-
Money Market Funds		1,971,740	AAA		1,971,740	-	-
Limited Obligation Improvement Bonds		133,110	AAA		133,110	-	-
Total	$	14,660,908		$	2,104,850	5,590,445	6,965,613

Credit ratings of investments as of June 30, 2018, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	6,790,874	N/A	$	-	-	6,790,874
CalTrust Investment Fund		5,376,497	AAf		-	5,376,497	-
Money Market Funds		1,927,817	AAA		1,927,817	-	-
Limited Obligation Improvement Bonds		132,107	AAA		132,107	-	-
Total	$	14,227,295		$	2,059,924	5,376,497	6,790,874

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

(2) Cash and Investments, continued

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at June 30, 2019:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$	1,971,740	1,971,740	-	-
CalTrust Investment Fund		5,590,445	-	5,590,445	-
Held by bond trustee:					
Money market funds		133,110	133,110	-	-
Total investments measured at fair value		7,695,295	2,104,850	5,590,445	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		6,965,613			
Total	$	14,660,908			

Investments at June 30, 2018:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$	1,927,817	-	1,927,817	-
CalTrust Investment Fund		5,376,497	-	5,376,497	-
Held by bond trustee:					
Money market funds		132,107	132,107	-	-
Total investments measured at fair value		7,436,421	132,107	7,304,314	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		6,790,874			
Total	$	14,227,295			

(3) Note Receivable, Beaumont Concrete Settlement

In 2001, the District settled a claim against Beaumont Concrete in the amount of $365,000. Terms of the settlement agreement call for annual payments to the District with the final payment due in 2046.

Changes in note receivable amounts for the fiscal year ended June 30, 2019, were as follows:

		Balance 2018	Payments Received	Balance 2019	Current Portion	Non-Current Portion
Note receivable	$	260,000	(7,500)	252,500	7,500	245,000

(3) Note Receivable, Beaumont Concrete Settlement

Changes in note receivable amounts for the fiscal year ended June 30, 2018, were as follows:

	Balance 2017	Payments Received	Balance 2018	Current Portion	Non-Current Portion
Note receivable	$ 267,500	(7,500)	260,000	7,500	252,500

(4) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2018	Reclassification	Additions/ Transfers	Deletions/ Transfers	Balance 2019
Non-depreciable assets:					
Land	$ 597,925	-	-	-	597,925
Intangible assets	11,340	-	-	-	11,340
Construction-in process	1,220,052	-	426,693	-	1,646,745
Total non-depreciable assets	1,829,317	-	426,693	-	2,256,010
Depreciable assets:					
Capacity rights	6,705,252	-	-	-	6,705,252
Dams, wells & reservoirs	8,135,770	-	-	-	8,135,770
North Fork Power Plant	70,794	-	-	-	70,794
Pumping & purification	6,281,602	8,753	107,804	-	6,398,159
Distribution & transmission	37,424,737	-	214,263	-	37,639,000
Fire hydrants, services & meters	17,116,691	116,562	385,594	(24,755)	17,594,092
Buildings, structures & grounds	10,802,440	-	33,295	-	10,835,735
General equipment	4,139,646	-	164,957	(113,560)	4,191,043
Sewers	12,924,100	-	-	-	12,924,100
Campground Installations etc.	3,151,131	-	5,200	(2,701)	3,153,630
Total depreciable assets	106,752,163	125,315	911,113	(141,016)	107,647,575
Accumulated depreciation	(53,533,138)	(125,315)	(2,782,718)	140,253	(56,300,918)
Total depreciable assets, net	53,219,025	-	(1,871,605)	(763)	51,346,657
Total capital assets, net	$ 55,048,342	-	(1,444,912)	(763)	53,602,667

Increases in 2019 to capital assets consisted primarily of additions of $426,694 in construction in progress, $385,594 in fire hydrants, services and meters, $214,263 in distribution and transmission, $164,957 in general equipment, $106,804 in pumping and purification, $33,295 in buildings, structures and grounds, and $5,200 in campground installations.

During the fiscal year ended June 30, 2019, the District identified that it had disposed of $116,562 in fire hydrants, services and meters and $8,753 in pumping and purification equipment, which were fully depreciated and as a result the assets were added back to the capital assets inventory.

(4) Capital Assets, continued

Changes in capital assets for the year were as follows:

	Balance 2017	Reclassification	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:					
Land	$ 597,925	-	-	-	597,925
Intangible assets	11,340	-	-	-	11,340
Construction-in process	577,710	-	987,747	(345,405)	1,220,052
Total non-depreciable assets	1,186,975	-	987,747	(345,405)	1,829,317
Depreciable assets:					
Capacity rights	6,705,252	-	-	-	6,705,252
Dams, wells & reservoirs	8,103,074	-	32,696	-	8,135,770
North Fork Power Plant	70,794	-	-	-	70,794
Pumping & purification	6,120,090	-	161,512	-	6,281,602
Distribution & transmission	37,085,033	-	343,289	(3,585)	37,424,737
Fire hydrants, services & meters	16,608,240	-	532,315	(23,864)	17,116,691
Buildings, structures & grounds	10,784,054	-	18,386	-	10,802,440
General equipment	3,979,549	-	187,090	(26,993)	4,139,646
Sewers	12,924,100	-	-	-	12,924,100
Campground Installations etc.	3,140,721	-	10,410	-	3,151,131
Total depreciable assets	105,520,907	-	1,285,698	(54,442)	106,752,163
Accumulated depreciation	(50,341,760)	-	(3,245,820)	54,442	(53,533,138)
Total depreciable assets, net	55,179,147	-	(1,960,122)	-	53,219,025
Total capital assets, net	$ 56,366,122	-	(972,375)	(345,405)	55,048,342

Increases in 2018 to capital assets consisted primarily of additions to construction in progress of $884,246, fire hydrants, services and meters of $532,315,distribution and transmission of $343,289, general equipment of $187,090, pumping and purification of $161,512, dams, wells and reservoirs of $32,696, buildings, structures and grounds of $18,386, and campground installations of $10,410.

(5) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes to compensated absences for 2019, were as follows:

Balance 2018	Earned	Taken	Balance 2019	Due within One Year	Due in more than one year
$ 377,217	409,427	(437,616)	349,028	139,611	209,417

Changes to compensated absences for 2018, were as follows:

Balance 2017	Earned	Taken	Balance 2018	Due within One Year	Due in more than one year
$ 404,889	504,490	(532,162)	377,217	150,887	226,330

(6) Long-Term Debt

Changes in long-term debt amounts for 2019 were as follows:

	Balance 2018	Additions	Payments	Balance 2019	Current Portion	Non-current Portion
Long-term debt:						
Notes payable:						
Ground Water Management Plan	$ 5,157,806	-	(197,238)	4,960,568	205,206	4,755,362
Municipal Finance Corporation – Admin Bldg	1,154,759	-	(367,923)	786,836	384,666	402,170
Total notes payable	6,312,565	-	(565,161)	5,747,404	589,872	5,157,532
Loan payable:						
Department of Water Resources	1,558,911	-	(224,386)	1,334,525	229,743	1,104,782
Bonds payable:						
Assessment District No. 2003-1, Garner Valley	1,160,000	-	(70,000)	1,090,000	70,000	1,020,000
Certificates of Participation:						
CSDA – Series 2010	6,800,000	-	(165,000)	6,635,000	170,000	6,465,000
Total long-term debt	$ 15,831,476	-	(1,024,547)	14,806,929	1,059,615	13,747,314

Changes in long-term debt amounts for 2018 were as follows:

	Balance 2017	Additions	Payments	Balance 2018	Current Portion	Non-current Portion
Long-term debt:						
Notes payable:						
Ground Water Management Plan	$ 5,347,386	-	(189,580)	5,157,806	197,238	4,960,568
Municipal Finance Corporation – Admin Bldg	1,506,668	-	(351,909)	1,154,759	367,923	786,836
Total notes payable	6,854,054	-	(541,489)	6,312,565	565,161	5,747,404
Loan payable:						
Department of Water Resources	1,778,006	-	(219,095)	1,558,911	224,386	1,334,525
Bonds payable:						
Assessment District No. 2003-1, Garner Valley	1,225,000	-	(65,000)	1,160,000	70,000	1,090,000
Certificates of Participation:						
CSDA – Series 2010	6,960,000	-	(160,000)	6,800,000	165,000	6,635,000
Total long-term debt	$ 16,817,060	-	(985,584)	15,831,476	1,024,547	14,806,929

(6) Long-Term Debt, continued

Ground Water Management Plan Note Payable

In 2009, Eastern Municipal Water District (EMWD) issued $19,606,000 in bonds to fund construction of capital improvements related to a regional Ground Water Management Plan. Terms of the agreement with EMWD calls for the District to service a 34.2% proportional share ($6,705,252) of the outstanding obligation. Semi-annual principal and interest payments of $234,325 are due January 1, and July 1, at an interest rate of 4.0%, maturing in 2035.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2020	$	205,206	263,444	468,650
2021		213,497	255,154	468,651
2022		222,122	246,528	468,650
2023		231,096	237,554	468,650
2024		240,432	228,218	468,650
2025-2029		1,391,617	951,635	2,343,252
2030-2034		1,803,742	539,510	2,343,252
2035-2036		652,856	48,569	701,425
Total		4,960,568	2,770,612	7,731,180
Less current portion		(205,206)		
Total non-current	$	4,755,362		

Municipal Finance Corporation Note Payable

In March 2006, the District entered into an agreement with the Municipal Finance Corporation in the amount of $4,500,000 at the rate of 4.5%, to finance the construction of the Districts main office building and operations facility. Debt service payments in the amount of $207,897 are due each March 10, and September 10, maturing March 2021.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2020	$	384,666	31,128	415,794
2021		402,170	13,624	415,794
Total		786,836	44,752	831,588
Less current portion		(384,666)		
Total non-current	$	402,170		

(6) Long-Term Debt, continued

Department of Water Resources Loan Payable

In June 1999, the District entered into a low interest loan agreement with the California Department of Water Resources in the amount of $3,909,310 at the rate of 2.4%, to fund the replacement of 37,000 feet aged transmission pipelines and related infrastructure. Debt service payments of $130,233 are due each October 1 and April 1, maturing September 2024.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2020	$	229,743	30,723	260,466
2021		235,404	25,062	260,466
2022		241,034	19,432	260,466
2023		246,854	13,612	260,466
2024		252,801	7,665	260,466
2025		128,689	1,544	130,233
Total		1,334,525	98,038	1,432,563
Less current portion		(229,743)		
Total non-current	$	1,104,782		

Assessment District No. 2003-1, Garner Valley Bond Payable

In August 2005, the District issued $1,842,479 in limited obligation bonds at various rates, to finance the acquisition and construction of improvements benefiting properties located within the boundaries of the District's Assessment District No. 2003-1, Garner Valley. The bonds are issued upon and secured by property assessments with the Assessment District. Interest on the bonds is payable semi-annually on September 2 and March 2 at variable rates from 3.0% to 5.0%, with principal payments scheduled each September 2, maturing in 2030.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2020	$	70,000	53,318	123,318
2021		75,000	49,819	124,819
2022		80,000	46,000	126,000
2023		80,000	41,875	121,875
2024		80,000	37,625	117,625
2025-2029		475,000	119,500	594,500
2030-2031		230,000	11,750	241,750
Total		1,090,000	359,887	1,449,887
Less current portion		(70,000)		
Total non-current	$	1,020,000		

(6) Long-Term Debt, continued

CSDA Finance Corporation – Certificates of Participation Series 2010

In September 2010, the Lake Hemet Municipal Water District issued $7,802,976 of 2010 Series Certificates of Participation at rates from 3.0% to 5.25% (averaging 5.05%), to fund a portion of the cost of the design and construction of the Pipeline Replacement Project. The project primarily consists of 120,000 feet of pipeline replacement, modification to pumping facilities, and increased water storage for fire protection within the Valley Public Water System section of the enterprise.

The Series 2010 Certificates of Participation include principal payments due in varying amounts from $135,000 to $495,000 annually from September 1, 2011 to September 1, 2040, with interest payable semi-annually beginning March 2011, and maturing in fiscal year 2040.

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2020	$ 170,000	334,475	504,475
2021	180,000	327,688	507,688
2022	185,000	319,463	504,463
2023	195,000	309,963	504,963
2024	205,000	299,963	504,963
2025-2029	1,195,000	1,331,065	2,526,065
2030-2034	1,540,000	987,139	2,527,139
2035-2039	2,005,000	526,179	2,531,179
2040-2041	960,000	51,188	1,011,188
Total	6,635,000	4,487,123	11,122,123
Less current portion	(170,000)		
Total non-current	$ 6,465,000		

(7) Other Post-Employment Benefits

Plan Description

The District's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides OPEB for all permanent and vested full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The District sponsors healthcare coverage through the CalPERS Medical and Health Program. The District does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements.

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post-employment medical and dental benefits:

- Employee who retires with at least 10 years of continuous service.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits shall be terminated.

(7) Other Post-Employment Benefits, continued

Benefits Provided, continued

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. The District contributes up to $125 plus up to sixty-six ($66) per month towards District retirees' health insurance premiums for those District employees who retire with ten years of service and are taking District medical insurance at the time of retirement. These payments will continue until the earlier of the death of the retiree or the retiree ceasing to be covered under the District's medical plan.

The following is a summary of the current retiree benefit plan:

	All Employees
Benefit types provided	Medical only
Duration of benefits	Lifetime
Required service	CalPERS Retirement
Minimum Age	CalPERS Retirement
Dependent coverage	Surviving Spouse only
District contribution %	100% to cap
District cap	Section 22892 Statutory minimum plus $50 per month*

*For those retired prior to July 1, 2012, the $50 increases $1 per year to a maximum of $66 per month.

Employees Covered by Benefit Terms

Membership in the OPEB plan consisted of the following members as of June 30:

	2019	2018
Participating active employees	53	53
Inactive employees or beneficiaries currently receiving benefit payments	19	19
Total plan membership	72	72

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District's Board of Directors. The Board establishes rates based on an actuarially determined rate.

As of the fiscal year ended June 30, the contributions were as follows:

	2019	2018
Contributions – employer	$ 41,362	39,771

The "pay as you go" cost is the cost of benefits for current retirees.

Discount Rate

The discount rate to measure the total OPEB liability was 3.8%, which is based on the Bond Buyer 20 Bond Index. The projection of cash flows used to determine the discount rate assumed that liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees. The discount rate was set by using historic 30 year real rates of return for each asset class along with the assumed long-term inflation assumption.

(7) Other Post-Employment Benefits, continued

Actuarial Assumptions

The District's total OPEB liability was measured as of June 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Salary increases	2.75% per annum, in aggregate
Inflation	2.75%
Healthcare cost trend rates	4% per year
Discount rate	3.8% per year net of expenses; the discount rate is based on the Bond Buyer 20 Bond Index.
Mortality	Mortality assumptions are based on the 2014 CalPERS Active and Retiree Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables.
Service requirement	100% at 5 Years of Service

Changes in the Total OPEB Liability

Changes in the total OPEB liability for the year were as follows:

	Total OPEB Liability 2018-2019	Total OPEB Liability 2017-2018
Balance at beginning of year	$ 1,899,925	1,827,370
Changes during the year:		
Service cost	44,028	42,850
Interest	66,544	69,476
Contributions - employer	(41,362)	(39,771)
Assumption changes	94,386	-
Net changes	163,596	72,555
Balance at end of year	$ 2,063,521	1,899,925

See the Schedules of Changes in Total OPEB Liability and Related Ratios in the Required Supplementary Information Section on page 50.

(7) Other Post-Employment Benefits, continued

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

As of June 30, 2018, the following presents the total OPEB liability of the District, as well as what the District's total OPEB 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 discount rate:

As of June 30, 2019, the discount rate comparison was the following:

		Discount Rate - 1% 2.80%	Current Discount Rate 3.80%	Discount Rate + 1% 4.80%
Total OPEB liability	$	2,421,779	2,063,521	1,781,284

As of June 30, 2018, the discount rate comparison was the following:

		Discount Rate - 1% 2.80%	Current Discount Rate 3.80%	Discount Rate + 1% 4.80%
Total OPEB liability	$	2,224,543	1,899,925	1,638,076

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

As of June 30, 2018, the following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

As of June 30, 2019, the healthcare cost trend rate comparison was the following:

		Healthcare cost trend		
		1% Decrease	Current	1% Increase
Total OPEB liability	$	1,799,873	2,063,521	2,379,964

As of June 30, 2018, the healthcare cost trend rate comparison was the following:

		Healthcare cost trend		
		1% Decrease	Current	1% Increase
Total OPEB liability	$	1,673,211	1,899,925	2,166,137

For the fiscal years ended June 30, 2019 and 2018, the District recognized OPEB expense of $119,394 and $112,326, respectively.

(7) Other Post-Employment Benefits, continued

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

At June 30, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2019		June 30, 2018	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 85,564	-	-	-

At June 30, 2019 and 2018, there were amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB which are required to be recognized in OPEB expense over future periods, respectively. OPEB related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30	Deferred Outflows of Resources
2020	$ 8,822
2021	8,822
2022	8,822
2023	8,822
2024	8,822
Thereafter	41,454

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

See page 50 for the Required Supplementary Schedule.

(8) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's 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.

Benefits provided

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 each plan are applied as specified by the Public Employees' Retirement Law.

(8) Defined Benefit Pension Plan, continued

Benefits provided, continued

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 and 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provision and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous Plan		
	Classic	**New Classic**	**PEPRA**
Hire date	Prior to January 1, 2011	On or after January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 service years	5 service years	5 service years
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	6.902%	6.912%	6.250%
Required employer contribution rates	8.892%	7.634%	6.842%

Contributions

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 July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal years ended June 30 the contributions for the Plan were as follows:

	Miscellaneous Plan	
	2019	**2018**
Contributions – employer	$ 846,450	671,388

Net Pension Liability

As of June 30 the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	2019	**2018**
Miscellaneous Plan	$ 9,301,784	9,384,584

(8) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 (the measurement date), 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 (the valuation date), rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, were as follows:

	Miscellaneous Plan	
	2019	2018
Proportion – Beginning of year	0.09463%	0.08268%
Proportion – End of year	0.09653%	0.09463%
Change – Increase (Decrease)	0.00190%	0.01195%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2019 and 2018, the District recognized pension expense of $1,467,668 and $1,832,977, respectively.

As of June 30, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019		June 30, 2018	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 846,450	-	671,388	-
Differences between actual and expected experience	235,448	-	-	(157,503)
Changes in assumptions	800,553	-	1,354,582	-
Net differences between projected and actual earnings on plan investments	45,986	-	331,638	-
Differences between actual contribution and proportionate share of contribution	-	(526,378)	-	(388,882)
Net adjustment due to differences in proportions of net pension liability	434,520	-	729,374	-
Total	$ 2,362,957	(526,378)	3,086,982	(546,385)

As of June 30, 2019 and 2018, $846,450 and $671,388, were reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020 and 2019, respectively.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As a result of the implementation of GASB 68 at June 30, 2019, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30,	Deferred Net Outflows/(Inflows) of Resources
2020	$ 789,410
2021	484,179
2022	(208,248)
2023	(75,212)
2024	-
Remaining	-

Actuarial Assumptions

The total pension liabilities were determined as of June 30, 2018 and 2017, which were rolled forward to June 30, 2017 and 2016, respectively, using the following actuarial assumptions:

Valuation Date	June 30, 2017 and 2016
Measurement Date	June 30, 2018 and 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2018 – 2.50% 2017 – 2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Period upon which actuarial Experience Survey assumptions were based	2018 – 1997–2015 2017 – 1997–2011
Post Retirement Benefit	2018 – Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter 2017 – Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used on the previous page was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

(8) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. 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 the Plan.

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.

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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the 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 rounded down to the nearest one quarter of one percent.

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.

As of June 30, 2019, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	50.0%	4.80%	2.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	77.00%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Infrastructure and Forestland	0.0%	0.00%	0.00%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.0%		

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

As of June 30, 2019, the discount rate comparison was the following:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 14,240,336	9,301,784	5,225,089

As of June 30, 2018, the discount rate comparison was the following:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 14,218,244	9,384,584	5,381,259

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 51 through 52 for the Required Supplementary Schedules.

Payable to the Pension Plan

As of June 30, 2019 and 2018, the District reported no payables for the outstanding amount of contribution to the pension plan, respectively.

(9) Net Position

Calculation of net position as of June 30 was as follows:

		2019	2018
Net investment in capital assets:			
Capital assets, net	$	53,602,667	55,048,342
Notes payable, current		(589,872)	(565,161)
Notes payable, non-current		(5,157,532)	(5,747,404)
Loan payable, current		(229,743)	(224,386)
Loan payable, non-current		(1,104,782)	(1,334,525)
Bonds payable, current		(70,000)	(70,000)
Bonds payable, non-current		(1,020,000)	(1,090,000)
Certificate of Participation, current		(170,000)	(165,000)
Certificate of Participation, non-current		(6,465,000)	(6,635,000)
Loan proceeds held by District		522,646	512,997
Total net investment in capital assets		39,318,384	39,729,863
Restricted for capital projects:			
Restricted – cash and cash equivalents		1,588,784	1,567,242
Restricted – note receivable, current		7,500	7,500
Restricted – note receivable, non-current		245,000	252,500
Restricted – property taxes and assessments receivable		3,782	7,146
Total restricted for capital projects		1,845,066	1,834,388
Restricted for debt service:			
Restricted – cash and cash equivalents		655,757	645,104
Unrestricted net position:			
Non-spendable net position:			
Materials and supplies receivable		303,013	300,463
Prepaid expenses and other assets		366,330	351,746
Total non-spendable net position		669,343	652,209
Spendable net position is designated as follows:			
Unrestricted		11,509,501	7,974,260
Total spendable net position		11,509,501	7,974,260
Total unrestricted net position		12,178,844	8,626,469
Total net position	$	53,998,051	50,835,824

(10) Prior Period Adjustment

In fiscal year 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75. As a result, the District recognized the total OPEB liability and removed the total OPEB obligation associated with GASB 45 as of June 30, 2017. Previously recorded net position of $20,133,127 has been restated to $21,038,150 as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position at July 1, 2017.

The effect of the changes is summarized as follows:

Net position at June 30, 2017, as previously stated		$ 52,534,537
Net OPEB Liability - GASB 75 Implementation:		
Effect of adjustment to record net OPEB liability	$ (1,827,370)	
Effect of adjustment to remove net OPEB liability associated with GASB 45	101,741	
Effect of adjustment to record deferred OPEB outflows	39,771	
Total adjustment to net position		(1,685,858)
Net position at July 1, 2017, as restated		$ 50,848,679

(11) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by Voya Financial and Nationwide through administrative service agreements. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by Voya Financial and Nationwide at June 30, 2019 and 2018, amounted to $3,892,651 and $3,625,888, respectively.

The District has implemented GASB Statement No. 32, Accounting for Financial Reporting for Internal Revenue code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the Statements of Net Position.

(12) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance coverage is provided by various carriers in amounts to meet statutory requirements.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2019, 2018, and 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR or claims payable as of June 30, 2019, 2018, and 2017.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2019, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 89

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

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 89, continued

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 90, continued

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 91

In August 2018, the GASB issued Statement No. 91 – Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

(14) Commitments and Contingencies

Litigation

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

(15) Subsequent Events

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of January 16, 2020, which is the date the financial statements were available to be issued.

Required Supplementary Information

Lake Hemet Municipal Water District
Schedules of Changes in Total OPEB Liability and Related Ratios
As of June 30, 2019
Last Ten Years*

		2019	2018
Total OPEB Liability			
Service cost	$	44,028	42,850
Interest		66,544	69,476
Changes in assumptions		94,386	-
Benefit payments		(41,362)	(39,771)
Net change in total OPEB liability		163,596	72,555
Total OPEB liability – beginning of year		1,899,925	1,827,370
Total OPEB liability – end of year	$	2,063,521	1,899,925
Covered payroll		3,866,943	4,266,935
Net OPEB Liability as a percentage of covered payroll		53.36%	44.53%

Notes to Schedule

Benefit changes – None noted.

Changes of assumptions – None noted.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Lake Hemet Municipal Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2019
Last Ten Years*

Description		Measurement Dates 6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's Proportion of the Net Pension Liability		0.09653%	0.09463%	0.08268%	0.07749%	0.07175%
District's Proportionate Share of the Net Pension Liability	$	9,301,784	9,384,584	7,154,315	5,318,986	4,464,431
District's Covered Payroll	$	4,394,943	4,401,201	4,240,964	4,081,595	3,883,466
District's Proportionate Share of the Net Pension Liability as a percentage of its Covered Payroll		211.65%	213.23%	168.70%	130.32%	114.96%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability		74.52%	73.30%	76.11%	81.19%	82.93%

Notes:

* The District has presented information for those years for which information is available until a full 10- year trend is compiled.

Lake Hemet Municipal Water District
Schedules of Pension Plan Contributions
As of June 30, 2019
Last Ten Years*

Description		Fiscal Years Ended 6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Actuarially Determined Contribution	$	934,300	730,278	649,721	520,468	557,682	453,201
Contributions in Relation to the Actuarially Determined Contribution		(846,450)	(671,388)	(634,208)	(339,967)	(545,434)	(557,682)
Contribution Deficiency (Excess)	$	87,850	58,890	15,513	180,501	12,248	(104,481)
Covered Payroll	$	3,866,943	4,394,943	4,401,201	4,240,964	4,081,595	3,883,466
Contribution's as a percentage of Covered Payroll		21.89%	15.28%	14.41%	8.02%	13.36%	14.36%

Note:

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

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Supplemental Information

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statements of Net Position – Garner Valley
June 30, 2019 and 2018

	2019	2018
Current assets:		
Cash and cash equivalents – restricted	$ 133,110	132,107
Accounts receivable – water sales, net	21,543	32,000
Property taxes and assessments receivable	5,057	8,346
Prepaid expenses and other assets	5,246	5,038
Total current assets	164,956	177,491
Non-current assets:		
Capital assets – not being depreciated	6,588	6,588
Depreciable capital assets, net	2,493,930	2,611,087
Total non-current assets	2,500,518	2,617,675
Total assets	2,665,474	2,795,166
Current liabilities:		
Accounts payable and accrued expenses	16,801	9,309
Accrued interest payable	18,233	19,088
Unearned revenue	7,460	8,018
Long-term liabilities – due within one year:		
Compensated absences	9,774	10,388
Bonds payable	70,000	70,000
Total current liabilities	122,268	116,803
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Bonds payable	1,020,000	1,090,000
Total non-current liabilities	1,020,000	1,090,000
Total liabilities	1,142,268	1,206,803
Net position:		
Net investment in capital assets	1,410,518	1,457,675
Restricted for debt service	133,110	132,107
Unrestricted	(20,422)	(1,419)
Total net position	$ 1,523,206	1,588,363

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statement of Revenues, Expenses and Changes in Net Position – Garner Valley
For the Fiscal Years Ended June 30, 2019 and 2018

		2019	2018
Operating revenues:			
Water consumption sales:			
Domestic water sales	$	214,278	275,516
Total operating revenues		214,278	275,516
Operating expenses:			
Source of supply		27,070	12,064
Pumping		53,966	59,547
Treatment		22,560	28,783
Transmission and distribution		5,703	8,750
Customer accounts		861	975
General and administrative		42,782	25,652
Total operating expenses		152,942	135,771
Operating income before depreciation expense		61,336	139,745
Depreciation expense		(120,558)	(145,567)
Operating loss		(59,222)	(5,822)
Non-operating revenue (expense):			
Property taxes and assessments		221,547	220,461
Investment earnings		2,748	1,376
Interest expense		(55,055)	(58,082)
Other non-operating expenses, net		(781)	(16,935)
Total non-operating revenues, net		168,459	146,820
Inter-fund transfers:			
Total inter-fund transfers		(174,394)	(196,305)
Change in net position		(65,157)	(55,307)
Net position, beginning of period		1,588,363	1,643,670
Net position, end of period	$	1,523,206	1,588,363

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Individual Non-Major Fund – Schedules of Capital Assets – Garner Valley
June 30, 2019 and 2018

Changes in capital assets for the year were as follows:

	Balance 2018	Reclass	Additions/ Transfers	Deletions/ Transfers	Balance 2019
Non-depreciable assets:					
Land	$ 6,588	-	-	-	6,588
Total non-depreciable assets	6,588	-	-	-	6,588
Depreciable assets:					
Dams, wells & reservoirs	354,769	-	-	-	354,769
Pumping & purification	426,085	-	3,255	-	429,340
Distribution & transmission	3,331,799	-	-	-	3,331,799
Fire hydrants, services & meters	303,854	3,255	146	(1,660)	305,595
Buildings, structures and grounds	99,084	-	-	-	99,084
Total depreciable assets	4,515,591	3,255	3,401	(1,660)	4,520,587
Accumulated depreciation	(1,904,504)	(3,255)	(120,558)	1,660	(2,026,657)
Total depreciable assets, net	2,611,087	-	(117,157)	-	2,493,930
Total capital assets, net	$ 2,617,675				2,500,518

Changes in capital assets for the year were as follows:

	Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land	$ 6,588	-	-	6,588
Total non-depreciable assets	6,588	-	-	6,588
Depreciable assets:				
Dams, wells & reservoirs	354,769	-	-	354,769
Pumping & purification	409,446	16,639	-	426,085
Distribution & transmission	3,331,799	-	-	3,331,799
Fire hydrants, services & meters	302,064	2,400	(610)	303,854
Buildings, structures and grounds	99,084	-	-	99,084
Total depreciable assets	4,497,162	19,039	(610)	4,515,591
Accumulated depreciation:	(1,759,321)	(145,567)	384	(1,904,504)
Total depreciable assets, net	2,737,841	(126,528)	(226)	2,611,087
Total capital assets, net	$ 2,744,429			2,617,675

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lake Hemet Municipal Water District (District), as of and for the fiscal years June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audits 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards, (continued)***

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 district'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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 16, 2020