



# Hidden Valley Lake Community Services District

## Finance Committee Meeting

DATE: February 13, 2019  
TIME: 12:30 pm  
PLACE: Hidden Valley Lake CSD  
Administration Office, GM Office  
19400 Hartmann Road  
Hidden Valley Lake, CA

- 1) CALL TO ORDER
- 2) PLEDGE OF ALLEGIANCE
- 3) ROLL CALL
- 4) APPROVAL OF AGENDA
- 5) DISCUSS AND RECOMMEND:
  - a) 2017-18 Draft Financial Audit
  - b) Mid-Year Budget Review / Adjustment
  - c) 2019-20 Budget –Timeline
  - d) RGS Contract for Financial Services (Hand Carry)
  - e) Draft NBS Rate Study
  - f) Finance Committee Charter
  - g) Water Advisory Group – WAG (Citizen Advisory) – Benefits
- 6) PUBLIC COMMENT
- 7) COMMITTEE MEMBER COMMENT
- 8) ITEMS FOR NEXT AGENDA
- 9) ADJOURNMENT

Public records are available upon request. Board Packets are posted on our website at [www.hvicsd.org/Meetings](http://www.hvicsd.org/Meetings).

In compliance to the Americans with Disabilities Act, if you need special accommodations to participate in or attend the meeting please contact the District Office at 987-9201 at least 48 hours prior to the scheduled meeting.

Public shall be given the opportunity to comment on each agenda item before the Governing Board acts on that item, G.C. 54953.3. All other comments will be taken under Public Comment.

**HIDDEN VALLEY LAKE  
COMMUNITY SERVICES DISTRICT,  
CALIFORNIA**

**Draft Report  
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**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2018**

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Annual Financial Report  
For the Year Ended June 30, 2018**

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## **INTRODUCTORY SECTION**

- **List of Officials**

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**List of Officials**

**For the Year Ended June 30, 2018**

**Board of Directors**

Jim Lieberman. .... President  
Carolyn Graham. .... Vice President  
Linda Herndon. .... Director  
Jim Freeman. .... Director  
Judy Mirbegian. .... Director

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## **FINANCIAL SECTION**

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Required Supplementary Information**
- **Combining Fund Statements**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hidden Valley Lake Community Services District  
Hidden Valley Lake, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hidden Valley Lake Community Services District, California (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors  
Hidden Valley Lake Community Services District  
Hidden Valley Lake, California

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 1P to the financial statements, in 2017-18 the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is 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, District Pension Plan - Schedule of Proportionate Share of the Net Pension Liability, District Pension Plan - Schedule of Contributions, Notes to District Pension Plan, District OPEB Plan - Schedule of Changes in the Net OPEB Liability and Related Ratios, District OPEB Plan - Schedule of Contributions and Notes to District OPEB Plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements 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 combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors  
Hidden Valley Lake Community Services District  
Hidden Valley Lake, California

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 XXX, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Smith & Newell CPAs  
Yuba City, California  
XXX, 2019

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**Management's Discussion and Analysis  
(Unaudited)**



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## **Basic Financial Statements**

- **Government-Wide Financial Statements**

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Net Position**  
**June 30, 2018**

	<u><b>Business-Type Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 2,330,569
Investments with fiscal agent	175,948
Receivables:	
Accounts (net of allowance)	299,185
Assessments	21,281
Delinquent assessments	100,475
Intergovernmental	294,982
Interest	4,628
Prepaid costs	41,152
Capital assets:	
Non-depreciable assets	607,918
Depreciable assets, net of depreciation	5,975,722
Total capital assets	<u>6,583,640</u>
<b>Total Assets</b>	<u>9,851,860</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension adjustments	390,998
Deferred OPEB adjustments	33,593
<b>Total Deferred Outflows of Resources</b>	<u>424,591</u>
<b>LIABILITIES</b>	
Accounts payable	68,426
Salaries and benefits payable	35,687
Interest payable	71,113
Long-term liabilities:	
Due within one year	323,479
Due in more than one year	5,460,901
Net pension liability	1,466,045
Net OPEB liability	1,159,659
<b>Total Liabilities</b>	<u>8,585,310</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension adjustments	78,587
Deferred OPEB adjustments	83,240
<b>Total Deferred Inflows of Resources</b>	<u>161,827</u>
<b>NET POSITION</b>	
Net investment in capital assets	853,972
Restricted for debt service	860,060
Restricted for capital facilities	444,455
Unrestricted	(629,173)
<b>Total Net Position</b>	<u>\$ 1,529,314</u>

The notes to the basic financial statements are an integral part of this statements.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Statement of Activities**

**For the Year Ended June 30, 2018**

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Changes in</u>	
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Net Position</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Business-</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Type</u>
					<u>Activities</u>
Business-type activities:					
Sewer	\$ 2,015,757	\$ 1,242,727	\$ 283,863	\$ -	\$ (489,167)
Water	1,712,060	1,757,388	-	-	45,328
<b>Total Business-Type Activities</b>	<u>3,727,817</u>	<u>3,000,115</u>	<u>283,863</u>	<u>-</u>	<u>(443,839)</u>
<b>Total</b>	<u>\$ 3,727,817</u>	<u>\$ 3,000,115</u>	<u>\$ 283,863</u>	<u>\$ -</u>	<u>(443,839)</u>
<b>General revenues:</b>					
					17,909
Interest and investment earnings					121,598
Miscellaneous					
Special items:					304,407
2017 storms emergency response and repair proceeds					
<b>Total General Revenues and Special Items</b>					<u>443,914</u>
<b>Change in Net Position</b>					<u>75</u>
<b>Net Position - Beginning</b>					2,015,842
Cumulative effect of a change in accounting principle					(486,603)
<b>Net Position - Beginning, restated</b>					<u>1,529,239</u>
<b>Net Position - Ending</b>					<u>\$ 1,529,314</u>

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## **Basic Financial Statements**

- **Fund Financial Statements**

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Net Position**  
**Enterprise Funds**  
**June 30, 2018**

	<b>Sewer Operations</b>	<b>Water Operations</b>	<b>Flood Control</b>	<b>Totals</b>
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 1,664,188	\$ 663,490	\$ 2,891	\$ 2,330,569
Investments with fiscal agent	175,948	-	-	175,948
Receivables:				
Accounts (net of allowance)	105,112	194,073	-	299,185
Assessments	21,281	-	-	21,281
Intergovernmental	294,982	-	-	294,982
Interest	3,261	1,367	-	4,628
Prepaid costs	20,489	20,663	-	41,152
<b>Total Current Assets</b>	<b>2,285,261</b>	<b>879,593</b>	<b>2,891</b>	<b>3,167,745</b>
Noncurrent Assets:				
Advances to other funds	90,000	-	-	90,000
Delinquent assessments receivable	100,475	-	-	100,475
Capital assets, net	3,153,530	3,430,110	-	6,583,640
<b>Total Noncurrent Assets</b>	<b>3,344,005</b>	<b>3,430,110</b>	<b>-</b>	<b>6,774,115</b>
<b>Total Assets</b>	<b>5,629,266</b>	<b>4,309,703</b>	<b>2,891</b>	<b>9,941,860</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension adjustments	191,743	199,255	-	390,998
Deferred OPEB adjustments	15,638	17,955	-	33,593
<b>Total Deferred Outflows of Resources</b>	<b>207,381</b>	<b>217,210</b>	<b>-</b>	<b>424,591</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	41,282	27,144	-	68,426
Salaries and benefits payable	16,970	18,717	-	35,687
Interest payable	44,803	26,310	-	71,113
Compensated absences	16,857	12,572	-	29,429
Bonds	175,263	-	-	175,263
Loans	-	102,787	-	102,787
Certificates of participation	16,000	-	-	16,000
<b>Total Current Liabilities</b>	<b>311,175</b>	<b>187,530</b>	<b>-</b>	<b>498,705</b>

The notes to the basic financial statements are an integral part of this statements.

Continued (Page 1 of 2)



**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Net Position**  
**Enterprise Funds**  
**June 30, 2018**

	<u>Sewer Operations</u>	<u>Water Operations</u>	<u>Flood Control</u>	<u>Totals</u>
<b>LIABILITIES (CONTINUED)</b>				
Noncurrent Liabilities:				
Advances from other funds	-	90,000	-	90,000
Compensated absences	14,482	10,801	-	25,283
Bonds	3,190,425	-	-	3,190,425
Loans	-	1,711,693	-	1,711,693
Certificates of participation	533,500	-	-	533,500
Net pension liability	716,814	749,231	-	1,466,045
Net OPEB liability	518,717	640,942	-	1,159,659
<b>Total Noncurrent Liabilities</b>	<u>4,973,938</u>	<u>3,202,667</u>	<u>-</u>	<u>8,176,605</u>
<b>Total Liabilities</b>	<u>5,285,113</u>	<u>3,390,197</u>	<u>-</u>	<u>8,675,310</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension adjustments	39,399	39,188	-	78,587
Deferred OPEB adjustments	41,911	41,329	-	83,240
<b>Total Deferred Inflows of Resources</b>	<u>81,310</u>	<u>80,517</u>	<u>-</u>	<u>161,827</u>
<b>NET POSITION</b>				
Net investment in capital assets	(761,658)	1,615,630	-	853,972
Restricted for debt service	685,016	175,044	-	860,060
Restricted for capital facilities	327,178	117,277	-	444,455
Unrestricted	219,688	(851,752)	2,891	(629,173)
<b>Total Net Position</b>	<u>\$ 470,224</u>	<u>\$ 1,056,199</u>	<u>\$ 2,891</u>	<u>\$ 1,529,314</u>

The notes to the basic financial statements are an integral part of this statements.

Continued (Page 2 of 2)

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Revenues, Expenses**  
**And Changes in Net Position**  
**Enterprise Funds**  
**For the Year Ended June 30, 2018**

	<b>Sewer Operations</b>	<b>Water Operations</b>	<b>Flood Control</b>	<b>Totals</b>
<b>OPERATING REVENUES</b>				
Assessments	\$ 283,863	\$ -	\$ -	\$ 283,863
Permits and inspections	54,548	-	-	54,548
Charges for services	1,188,179	1,757,388	-	2,945,567
Miscellaneous	69,231	52,367	-	121,598
<b>Total Operating Revenues</b>	<b>1,595,821</b>	<b>1,809,755</b>	<b>-</b>	<b>3,405,576</b>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	779,541	853,545	-	1,633,086
Insurance	72,888	23,794	-	96,682
Office expenses	24,660	24,647	-	49,307
Continuing education	7,170	5,239	-	12,409
Dues and subscriptions	7,448	27,125	-	34,573
Postage	7,206	7,206	-	14,412
Repairs and maintenance	152,666	163,089	-	315,755
Gas, fuel and oil	9,155	7,769	-	16,924
Supplies	35,285	7,482	-	42,767
Professional services	133,090	98,450	-	231,540
Rents and leases	22,242	-	-	22,242
Travel	1,660	1,605	-	3,265
Telephone	10,809	10,809	-	21,618
Power	82,631	140,256	1,109	223,996
Other utilities	2,245	2,244	-	4,489
Depreciation	227,334	182,965	-	410,299
Other operating	249,922	479	-	250,401
Office and safety equipment	7,066	4,320	-	11,386
Director's compensation	-	2,002	-	2,002
Environmental monitoring	32,250	16,052	-	48,302
Risk management	18,647	18,647	-	37,294
Water conservation	-	7,221	-	7,221
Water rights	-	8,509	-	8,509
Annual operating fees	1,722	31,230	-	32,952
<b>Total Operating Expenses</b>	<b>1,885,637</b>	<b>1,644,685</b>	<b>1,109</b>	<b>3,531,431</b>
<b>Operating Income (Loss)</b>	<b>(289,816)</b>	<b>165,070</b>	<b>(1,109)</b>	<b>(125,855)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	13,792	4,117	-	17,909
Interest expense	(131,227)	(65,160)	-	(196,387)
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(117,435)</b>	<b>(61,043)</b>	<b>-</b>	<b>(178,478)</b>
<b>Income (Loss) Before Special Items and Transfers</b>	<b>(407,251)</b>	<b>104,027</b>	<b>(1,109)</b>	<b>(304,333)</b>

The notes to the basic financial statements are an integral part of this statements.

Continued (Page 1 of 2)

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Revenues, Expenses**  
**And Changes in Net Position**  
**Enterprise Funds**  
**For the Year Ended June 30, 2018**

	<u>Sewer Operations</u>	<u>Water Operations</u>	<u>Flood Control</u>	<u>Totals</u>
<b>NON-OPERATING REVENUES (EXPENSES) (CONTINUED)</b>				
Proceeds for the 2017 storms emergency response and repair	304,407	-	-	304,407
Transfers in	221,097	-	4,000	225,097
Transfers out	<u>(216,371)</u>	<u>(8,726)</u>	<u>-</u>	<u>(225,097)</u>
<b>Change in Net Position</b>	<u>(98,118)</u>	<u>95,301</u>	<u>2,891</u>	<u>74</u>
<b>Total Net Position - Beginning</b>	783,771	1,232,072	-	2,015,843
Cumulative effect of a change in accounting principle	<u>(215,429)</u>	<u>(271,174)</u>	<u>-</u>	<u>(486,603)</u>
<b>Total Net Position - Beginning, Restated</b>	<u>568,342</u>	<u>960,898</u>	<u>-</u>	<u>1,529,240</u>
<b>Total Net Position - Ending</b>	<u>\$ 470,224</u>	<u>\$ 1,056,199</u>	<u>\$ 2,891</u>	<u>\$ 1,529,314</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2018**

	<u>Sewer Operations</u>	<u>Water Operations</u>	<u>Flood Control</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 1,576,368	\$ 1,779,284	\$ -	\$ 3,355,652
Cash paid to suppliers	(1,319,483)	(619,647)	(1,109)	(1,940,239)
Cash paid to employees	(611,144)	(688,321)	-	(1,299,465)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(354,259)</u>	<u>471,316</u>	<u>(1,109)</u>	<u>115,948</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Special project amounts paid	705,293	-	-	705,293
Interfund loan repayments received	366,085	(341,000)	-	25,085
Interfund loan repayments made	(126,085)	191,000	-	64,915
Interfund loans made	(90,000)	-	-	(90,000)
Transfer in from other funds	221,097	(8,726)	4,000	216,371
Transfer out to other funds	(216,371)	-	-	(216,371)
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<u>860,019</u>	<u>(158,726)</u>	<u>4,000</u>	<u>705,293</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on debt	(183,763)	(99,330)	-	(283,093)
Interest paid on debt	(133,218)	(66,600)	-	(199,818)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(316,981)</u>	<u>(165,930)</u>	<u>-</u>	<u>(482,911)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	12,095	3,405	-	15,500
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>12,095</u>	<u>3,405</u>	<u>-</u>	<u>15,500</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	200,874	150,065	2,891	353,830
<b>Balances - Beginning</b>	<u>1,639,262</u>	<u>513,425</u>	<u>-</u>	<u>2,152,687</u>
<b>Balances - Ending</b>	<u>\$ 1,840,136</u>	<u>\$ 663,490</u>	<u>\$ 2,891</u>	<u>\$ 2,506,517</u>

The notes to the basic financial statements are an integral part of this statements.

Continued (Page 1 of 2)

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2018**

	<u>Sewer Operations</u>	<u>Water Operations</u>	<u>Flood Control</u>	<u>Totals</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO</b>				
<b>NET CASH PROVIDED (USED) BY OPERATING</b>				
<b>ACTIVITIES</b>				
Operating income (loss)	\$ (289,816)	\$ 165,070	\$ (1,109)	\$ (125,855)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amortization	227,334	182,965	-	410,299
Decrease (increase) in:				
Accounts receivable	(27,405)	(35,332)	-	(62,737)
Assessments receivable	6,738	-	-	6,738
Taxes receivable	1,214	4,861	-	6,075
Prepaid costs	(9,982)	(10,156)	-	(20,138)
Pension adjustment - deferred outflows	21,941	21,941	-	43,882
OPEB adjustment - deferred outflows	(15,638)	(17,955)	-	(33,593)
Increase (decrease) in:				
Accounts payable	(430,739)	(1,316)	-	(432,055)
Salaries and benefits payable	(1,383)	4,516	-	3,133
Compensated absences payable	11,021	3,055	-	14,076
Net pension liability	91,844	91,844	-	183,688
Net OPEB liability	53,297	55,090	-	108,387
Pension adjustment - deferred inflows	(34,596)	(34,596)	-	(69,192)
OPEB adjustment - deferred inflows	41,911	41,329	-	83,240
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (354,259)</u>	<u>\$ 471,316</u>	<u>\$ (1,109)</u>	<u>\$ 115,948</u>

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The notes to the basic financial statements are an integral part of this statements.

Continued (Page 2 of 2)

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## **Basic Financial Statements**

- **Notes to Basic Financial Statements**

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# **Draft Report For Internal Use Only**

# HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

## Notes to Basic Financial Statements

For the Year Ended June 30, 2018

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Hidden Valley Lake Community Services District is a public corporation formed in 1984 under the provisions of the Community Services District Law, Division 3 of Title 6 (commencing with Section 61000) of the Government Code of the State of California. The District was formed for the purposes of providing for the collection of sewage, waste and storm water of the District and of its residents as well as the supply of water to the residents of the District. On January 1, 1993, Stonehouse Mutual Water Company merged with Hidden Valley Lake Community Services District. Stonehouse Mutual Water Company was a mutual water company which had been organized in June 1968 to provide water and sewer services to the owners of Hidden Valley Lake Association lots. The merger was approved by the shareholders with authorization to transfer all assets and liabilities to the District as of December 31, 1992, and dissolve Stonehouse Mutual Water Company. Notification was received from the Franchise Tax Board that the Certificate of Dissolution was filed as a conditional dissolution on January 21, 1993. Upon the issuance of a Tax Clearance Certificate by the Franchise Tax Board, the corporation was dissolved.

The activities of the District are governed by a Board of Directors, each of whom is elected to office for a term of four years by the registered voters of the District.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

#### Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

#### Joint Agencies

The District is a participant in the Special District Risk Management Authority (SDRMA), which is a joint powers agency organized for the purpose of pooled joint-protection coverage to member entities. SDRMA operates public entity pools for auto and general liability coverage, plus workers compensation and errors and omissions coverage and pool purchases excess insurance for members. Complete audited financial statements of SDRMA can be obtained at 1112 I Street, Suite 300, Sacramento, CA 95814. The District is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.



**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation**

**Government-Wide Financial Statements**

The Statement of Net Position and Statement of Activities display information on all the activities of the District. These statements include the financial activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. These statements present the business-type activities of the District, which rely to a significant extent on assessments and fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the District's business-type activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include (1) charges paid by the recipients of goods and services offered by the program and (2) operating grants and contributions, and (3) capital grants and contributions. Revenues that are not classified as program revenues, are presented instead as general revenues.

**Fund Financial Statements**

The fund financial statements provide information about the District funds. Funds are organized into the proprietary fund type. The operations of the District are organized as a series of sub-funds consolidated into two major proprietary funds which account for the total water and sewer operations. An emphasis is placed on major funds within the proprietary category; each is displayed in a separate column.

The District reports the following major proprietary funds:

- The Sewer Operations fund is an enterprise fund used to account for activity related to providing customers with sewer service and billing for service provided by the District.
- The Water Operations fund is an enterprise fund used to account for activity related to providing customers with water service and billing for service provided by the District.

**C. Basis of Accounting and Measurement Focus**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange include revenue from grants, entitlements, and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Cash and Cash Equivalents**

For purposes of the accompanying Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased, including investments with fiscal agent, to be cash equivalents.

**E. Investments**

The District pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

Investment transactions are recorded on the trade date. The fair value of investments is determined annually. Investments in nonparticipating interest-earning investment contracts are reported at cost; short term investments are reported at amortized cost, investments in the State of California Local Agency Investment Fund, an external pool, are reported at amortized cost which approximates fair value, and the fair value of all other investments are obtained by using quotations obtained from independent published sources or by the safekeeping institution. The fair value represents the amount the District could reasonably expect to receive for an investment in a current sale between a willing buyer and seller.

Income from pooled investments is allocated to the individual funds based on the fund or participant's average daily cash balance at quarter end in relation to the total pool investments. Income from non-pooled investments is recorded based on the specific investments held by the fund.

**F. Receivables**

Receivables consist mainly of user fees, assessments, and delinquent assessments. Although Management believes all assessments are ultimately collectible because they are collected with property taxes, management has established an allowance for doubtful accounts of \$430 for the Sewer Operations fund and \$0 for the Water Operations fund. Accounts receivables are stated net of these amounts.

Assessments receivable are recognized when billed. Assessments receivable shown in the financial statements include only those assessments currently due or delinquent.

**G. Other Assets**

**Inventory**

Inventory items are recorded as expenses at the time inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

**Prepaid Costs**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Capital Assets**

Capital assets, including public domain (infrastructure such as roads, bridges, sidewalks, sewer and similar items) are defined by the District as assets with a cost of \$1,000 or more. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is unavailable. Contributed capital assets are valued at their acquisition value at the time of donation.

Capital assets used in operations are depreciated or amortized using the straight-line method over the assets' estimated useful lives. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	5-30 years
Structures and Improvements	5-30 years
Infrastructure	20-75 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is to be included in the results of operations.

**I. Assessment Revenue**

The District levies special assessments on the property owners within the District boundaries. The special assessments are collected along with property taxes by the County of Lake.

Lake County assesses properties, bills, collects, and distributes the assessments to the District.

Assessments are due in two installments (secured roll) on November 1 and March 12 and become delinquent after December 10 and April 10, respectively.

**J. Interfund Transactions**

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenses in the reimbursing fund and reductions to expenses in the reimbursed fund.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Interfund Transactions (Continued)**

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

**K. Compensated Absences**

The District's policy regarding compensated absences is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends.

**L. Pensions**

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

**M. Other Postemployment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

**N. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has two items that qualify for reporting in this category. These items relate to the outflows from changes in the net pension liability and net OPEB liability and are reportable on the Statement of Net Position.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. These items relate to the inflows from changes in the net pension liability and net OPEB liability and are reportable on the Statement of Net Position.

**O. Estimates**

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

**P. Implementation of Governmental Accounting Standards Board Statements (GASB)**

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

**Statement No. 75**, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

**Statement No. 81**, Irrevocable Split-Interest Agreements. This statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

**Statement No. 85**, Omnibus 2017. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

**Statement No. 86**, Certain Debt Extinguishment Issues. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Restatement of Net Position**

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports these changes as restatements of beginning net position. During the current year, a prior period adjustment was made to reflect the prior period costs related to implementing the net OPEB liability as required by GASB Statement No. 75.

The impact of the restatement on the net position of the government-wide financial statements as previously reported is presented below:

	<u>Business-Type Activities</u>
Net Position, June 30, 2017, as previously reported	\$ 2,015,842
Adjustment associated with:	
Net OPEB Liability Adjustment	( 486,603)
Total Adjustments	( 486,603)
Net Position, July 1, 2017, as restated	<u>\$ 1,529,239</u>

The impact of the restatement on the net position of the fund financial statements as previously reported is presented below:

	<u>Sewer Operations</u>	<u>Water Operations</u>
Net Position, June 30, 2017, as previously reported	\$ 783,771	\$ 1,232,072
Adjustment associated with:		
Net OPEB Liability Adjustment	( 215,429)	( 271,174)
Total Adjustments	( 215,429)	( 271,174)
Net Position, July 1, 2017, as restated	<u>\$ 568,342</u>	<u>\$ 960,898</u>

**B. Deficit Net Position**

The sub-funds within the following enterprise funds had deficit net position at June 30, 2018:

Sewer Operations:	
1995-2 Bond Redemption	\$ 2,711,932
USDA Solar Loan	476,341
Water Operations:	
CIEDB Loan Redemption	\$ 1,825,788

These deficits will be eliminated in future years through loan and bond repayment.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 3: CASH AND INVESTMENTS**

**A. Financial Statement Presentation**

As of June 30, 2018, the District's cash and investments consisted of the following:

Cash:	
Cash on hand	\$ 600
Deposits (less outstanding checks)	<u>1,353,893</u>
Total Cash	<u>1,354,493</u>
Investments:	
Investments with fiscal agent	175,948
Local Agency Investment Fund (LAIF)	<u>976,076</u>
Total Investments	<u>1,152,024</u>
Total Cash and Investments	<u>\$ 2,506,517</u>

**B. Cash**

At year end, the carrying amount of the District's cash deposits (including amounts in checking accounts) was \$1,353,893, and the bank balance was \$1,384,622. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. In addition, the District had cash on hand of \$600.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District complies with the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds.

**C. Investments**

Investments are selected based on safety, liquidity and yield. The District's investment policy is more restrictive than the California Government Code. Under the provisions of the District's investment policy and the California Government Code, the District may invest or deposit in the following:

- Repurchase Agreements
- Local Agency Investment Fund (LAIF)
- U.S. Treasury Bonds/Notes/Bills
- U.S. Government Agency Obligations
- Bankers' Acceptances
- Commercial Paper
- Negotiable Certificates of Deposit
- Time Certificates of Deposit
- Reverse Repurchase Agreements



**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

**C. Investments (Continued)**

Fair Value of Investments - The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The District's position in external investment pools is in its self regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the District's investment in external investment pools is not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2018, the District had the following recurring fair value measurements:

Investment Type	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Investments by Fair Value Level</b>				
Money Market Mutual Funds	\$ 175,948	\$ 175,948	\$ -	\$ -
Total Investments Measured at Fair Value	175,948	\$ 175,948	\$ -	\$ -
<b>Investments in External Investment Pool</b>				
LAIF	976,076			
Total Investments	\$ 1,152,024			

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To limit exposure to fair value losses resulting from increases in interest rates, the District's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the District to meet all projected obligations.

As of June 30, 2018, the District had the following investments, all of which had a maturity of 5 years or less:

Investment Type	Interest Rates	Maturities		Fair Value	Weighted Average Maturity (Years)
		0-1 year	1-5 years		
<b>Pooled Investments</b>					
LAIF	Variable	\$ 976,076	\$ -	\$ 976,076	-
Total Pooled Investments		976,076	-	976,076	-
<b>Investments Held by Fiscal Agents</b>					
Money Market Mutual Funds	Variable	175,948	-	175,948	-
Total Investments Held by Fiscal Agents		175,948	-	175,948	-
Total Investments		\$ 1,152,024	\$ -	\$ 1,152,024	-



**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

**C. Investments (Continued)**

Credit Risk - 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 or the District’s investment policy, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Standard &amp; Poor’s Rating</u>	<u>Moody’s Rating</u>	<u>% of Portfolio</u>
Money Market Mutual Funds	A	AAAm	Aaa-mf	15.27%
LAIF	N/A	Unrated	Unrated	<u>84.73%</u>
Total				<u>100.00%</u>

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk, the District’s investment policy requires that all securities owned by the District shall be held in safekeeping by a third party bank trust department.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District’s investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District’s investment policy contains limitations on the amount that can be invested in any one issuer. All investments of the District were pooled with the State of California Local Agency Investment Fund, which holds a diversified portfolio of high quality investments, or held by fiscal agents.

**D. Investment in External Investment Pool**

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2018, the District’s investment in LAIF valued at amortized cost was \$976,076 and is the same as the value of the pool shares. There are no restrictions on withdrawal of funds. The total amount invested by all public agencies in LAIF on that day was \$88.8 billion. Of that amount, 97.33 percent is invested in non-derivative financial products and 2.67 percent in structured notes and asset-backed securities.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2018, was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 607,918	\$ -	\$ -	\$ 607,918
Total Capital Assets, Not Being Depreciated	<u>607,918</u>	<u>-</u>	<u>-</u>	<u>607,918</u>
Capital Assets, Being Depreciated:				
Structures and improvements	3,811,950	-	-	3,811,950
Equipment	1,745,985	-	-	1,745,985
Infrastructure	25,967,744	-	-	25,967,744
Total Capital Assets, Being Depreciated	<u>31,525,679</u>	<u>-</u>	<u>-</u>	<u>31,525,679</u>
Less Accumulated Depreciation for:				
Structures and improvements	( 1,409,193)	( 121,089)	-	( 1,530,282)
Equipment	( 1,452,174)	( 72,001)	-	( 1,524,175)
Infrastructure	( 22,278,291)	( 217,209)	-	( 22,495,500)
Total Accumulated Depreciation	<u>( 25,139,658)</u>	<u>( 410,299)</u>	<u>-</u>	<u>( 25,549,957)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,386,021</u>	<u>( 410,299)</u>	<u>-</u>	<u>5,975,722</u>
Total Capital Assets, Net	<u>\$ 6,993,939</u>	<u>(\$ 410,299)</u>	<u>\$ -</u>	<u>\$ 6,583,640</u>

**Depreciation**

Depreciation expense was charged to the business-type functions as follows:

Sewer Operations	\$ 227,334
Water Operations	<u>182,965</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 410,299</u>

**NOTE 5: INTERFUND TRANSACTIONS**

**Advances To/From Other Funds**

Advances to/from other funds are non-current interfund loans. The following are advances to/from other funds as of June 30, 2018:

	<u>Advances To</u> <u>Other funds</u>	<u>Advances From</u> <u>Other funds</u>
Sewer Operations	\$ 90,000	\$ -
Water Operations	<u>-</u>	<u>90,000</u>
Total	<u>\$ 90,000</u>	<u>\$ 90,000</u>

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 5: INTERFUND TRANSACTIONS (CONTINUED)**

**Transfers**

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various District operations and re-allocations of special revenues. The following are interfund transfers for the fiscal year ended June 30, 2018:

	Transfers <u>In</u>	Transfers <u>Out</u>
Sewer Operations	\$ 221,097	\$ 216,371
Water Operations	-	8,726
Flood Control	<u>4,000</u>	<u>-</u>
Total	<u>\$ 225,097</u>	<u>\$ 225,097</u>

**NOTE 6: LONG-TERM LIABILITIES**

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

<u>Type of Indebtedness</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ 3,500,000	\$	(\$ 166,000)	\$ 3,334,000	\$ 173,000
Unamortized Premium	<u>33,953</u>	<u>-</u>	<u>( 2,265)</u>	<u>31,688</u>	<u>2,263</u>
Bonds, net	3,533,953	-	( 168,265)	3,365,688	175,263
Loans	1,913,810	-	( 99,330)	1,814,480	102,787
Certificates of Participation	565,000	-	( 15,500)	549,500	16,000
Compensated Absences	<u>40,436</u>	<u>41,559</u>	<u>( 27,283)</u>	<u>54,712</u>	<u>29,429</u>
Total Business-Type Activities	<u>\$ 6,053,199</u>	<u>\$ 41,559</u>	<u>( \$ 310,378)</u>	<u>\$ 5,784,380</u>	<u>\$ 323,479</u>

Individual issues of debt payable outstanding at June 30, 2018, are as follows:

**Bonds:**

Sewer System Reassessment District No. 1 Limited Obligation Refunding Improvement Bonds Series 2016, issued March 9, 2016 in the amount of \$3,650,000, payable in annual installments of \$150,000-\$280,000 with an interest rate of 3.25-3.50% and maturity on September 2, 2032. The bonds were used to refund the Improvement Bonds Series 1995-2 which were used to finance improvements to the sewer system.

\$ 3,334,000

Total Bonds

3,334,000

**Loans:**

California Infrastructure and Economic Development Bank Loan, issued June 24, 2002 in the amount of \$3,000,000, payable in annual installments of \$61,530-\$160,350 with an interest rate of 3.48% and maturity on February 1, 2032. The loan was used to finance the expansion and upgrade of the water system.

1,814,480

Total Loans

1,814,480

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 6: LONG-TERM LIABILITIES (CONTINUED)**

Certificates of Participation:

2012 Series Certificate of Participation Water Reclamation Plant Energy Sustainability Project issued October 1, 2012, in the amount of \$640,000, payable in annual installments of \$14,000 to \$31,500 with an interest rate of 3.00% and maturity on August 1, 2041. The certificates of participation were used to finance the sewer system solar project.

	<u>549,500</u>
Total Certificates of Participation	<u>549,500</u>
Total	<u>\$ 5,697,980</u>

Following is a schedule of debt payment requirements of business-type activities to maturity for long-term debt, excluding compensated absences that have indefinite maturities, net pension liability which is reported in Note 8, and net OPEB liability, which is reported in Note 9.

Year Ended <u>June 30</u>	Bonds		
	Principal	Interest	Total
2019	\$ 173,000	\$ 110,992	\$ 283,992
2020	179,000	105,272	284,272
2021	185,000	99,357	284,357
2022	192,000	93,231	285,231
2023	199,000	86,728	285,728
2024-2028	1,100,000	325,555	1,425,555
2029-2033	<u>1,306,000</u>	<u>117,495</u>	<u>1,423,495</u>
Total	<u>\$ 3,334,000</u>	<u>\$ 938,630</u>	<u>\$ 4,272,630</u>

Year Ended <u>June 30</u>	Loans		
	Principal	Interest	Total
2019	\$ 102,787	\$ 63,143	\$ 165,930
2020	106,363	59,567	165,930
2021	110,065	55,865	165,930
2022	113,895	52,035	165,930
2023	117,859	48,071	165,930
2024-2028	653,746	175,906	829,652
2029-2032	<u>609,765</u>	<u>53,958</u>	<u>663,723</u>
Total	<u>\$ 1,814,480</u>	<u>\$ 508,545</u>	<u>\$ 2,323,025</u>

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 6: LONG-TERM LIABILITIES (CONTINUED)**

Year Ended June 30	Certificates of Participation		
	Principal	Interest	Total
2019	\$ 16,000	\$ 16,245	\$ 32,245
2020	16,500	15,757	32,257
2021	17,000	15,255	32,255
2022	17,500	14,738	32,238
2023	18,000	14,205	32,205
2024-2028	98,000	62,505	160,505
2029-2033	114,000	46,620	160,620
2034-2038	132,000	28,200	160,200
2039-2042	<u>120,500</u>	<u>7,358</u>	<u>127,858</u>
Total	<u>\$ 549,500</u>	<u>\$ 220,883</u>	<u>\$ 770,383</u>

**NOTE 7: NET POSITION**

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

**Net Position Flow Assumption**

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 8: PENSION PLAN**

**A. General Information about the Pension Plan**

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (Plan), cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Effective January 1, 2013, the District added a retirement tier for the Miscellaneous Plan for new employees as required under the Public Employee Pension Reform Act (PEPRA). New employees hired on or after January 1, 2013 will be subject to new, lower pension formulas, caps on pensionable income levels and new definitions of pensionable income. In addition, new employees will be required to contribute half of the total normal cost of the pension benefit unless impaired by an existing Memorandum of Understanding. The cumulative effect of these PEPRA changes will ultimately reduce the District's retirement costs. As of the valuation date there were no Miscellaneous PEPRA employees.

**Summary of Rate Tiers and Eligible Participants**

Open for New Enrollment  
Miscellaneous PEPRA Miscellaneous members hired on or after January 1, 2013

Closed to New Enrollment  
Miscellaneous Miscellaneous members hired before January 1, 2013

**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. Retirement benefits are paid monthly for life. 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.

Each Rate Tier's specific provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous	2.5% @ 55	50-55	1.426% to 2.418%
Miscellaneous PEPRA	2.0% @ 62	50-62	1.000% to 2.500%

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 8: PENSION PLAN (CONTINUED)**

**A. General Information about the Pension Plan (Continued)**

**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 the July 1 following notice of a change in the 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.

	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous	10.110%	8.000%	0.000%
Miscellaneous PEPRAs	6.533%	6.250%	0.000%

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan was as follows:

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 139,688	\$ -

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

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

	<u>Proportion June 30, 2016</u>	<u>Proportion June 30, 2017</u>	<u>Change - Increase (Decrease)</u>
Miscellaneous	.01482%	.01478%	(.00004%)

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 1,466,045
Total Net Pension Liability	<u>\$ 1,466,045</u>

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 8: PENSION PLAN (CONTINUED)**

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

For the year ended June 30, 2018 the District recognized pension expense of \$325,690. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 167,312	\$ -
Changes of assumptions	166,402	( 23,394)
Difference between expected and actual experience	2,472	( 26,239)
Differences between projected and actual earnings on pension plan investments	51,074	-
Difference between District contributions and proportionate share of contributions	3,738	-
Adjustment due to differences in proportions	<u>-</u>	<u>( 28,954)</u>
Total	<u>\$ 390,998</u>	<u>(\$ 78,587)</u>

\$167,312 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2019	\$ 1,428
2020	114,553
2021	69,419
2022	( 40,301)
Thereafter	<u>-</u>
Total	<u>\$ 145,099</u>



**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 8: PENSION PLAN (CONTINUED)**

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

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increase	Varies by entry age and service
Mortality Rate Table <sup>1</sup>	Derived using CalPERS membership data for all funds
Post-Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011 including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website.

**Change of Assumptions**

In fiscal year 2017-18, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The test revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

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

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<sup>1</sup>The mortality table used 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.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 8: PENSION PLAN (CONTINUED)**

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

**Discount Rate (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account 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 PERF 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 equal 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. The target allocation shown was adopted effective on July 1, 2014.

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-.90%
Total	100.0%		

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

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

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

The following presents the District's proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Discount Rate	1% Increase
Miscellaneous	\$ 2,210,447	\$ 1,466,045	\$ 849,517

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 8: PENSION PLAN (CONTINUED)**

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

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**A. General Information about the OPEB Plan**

**Plan Description**

The District provides a defined benefit healthcare plan (the "Retiree Health Plan") for eligible employees. The Retiree Health Plan provides lifetime healthcare insurance for eligible retirees through Special District Risk Management Authority (SDRMA) the District's group health insurance plan. The Board of Directors reserves the authority to review and amend the funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

The coverage requires the employee to meet the following requirements:

- Satisfaction of requirements for retirement under CalPERS, and
- Retirement from the District having reached at least age 55 and completing a minimum of 5 years of service with the District.

**Benefits Provided**

The District provides the following benefits to qualifying retirees who elect to continue medical coverage offered by the District. The benefits continue for the retiree's lifetime:

- 50 percent of the medical premiums for retiree
- 50 percent of the medical premiums for the retiree's spouse, if covered, while the retiree is living.

A retiree may elect to cover eligible dependents other than a spouse, provided the retiree pays 100 percent of any additional premium for their coverage.

Coverage and/or the premium subsidy above are not available in retirement in these circumstances:

- For survivors, after the retiree's death (other than as available under COBRA)
- For retirees eligible for PERS retirement from the District but failing to satisfy the age and service requirements above
- For retirees who meet the age and service requirements but do not continue their medical coverage through the District

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**A. General Information about the OPEB Plan (Continued)**

**Benefits Provided (Continued)**

The 2018 monthly healthcare premium rates are shown below:

<b>SDRMA 2018 Rates Northern California</b>			
<b>Plan</b>	<b>Employee Only</b>	<b>Employee +1</b>	<b>Employee +2</b>
Blue Shield PPO Gold	\$ 814.98	\$ 1,630.98	\$ 2,117.52
Gold PPO Medicare	523.26	1,046.52	1,569.78

**Employees Covered by Benefit Terms**

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

Inactive employees or beneficiaries currently receiving benefit payments	4
Active employees	<u>12</u>
	<u>16</u>

**B. Net OPEB Liability**

The District's net OPEB liability of \$1,159,659, was measured as of June 30, 2018, and was determined by the actuarial valuation as of that date.

**Actuarial Assumptions and Other Inputs**

The net OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Funding method	Entry-Age Normal Cost, level percent of pay
Inflation	2.75 percent
Salary increases	3.25 percent per year, since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years
Discount rate	2.92 percent as of June 30, 2016 3.56 percent as of June 30, 2017
Healthcare cost trend rates	7.5 percent for 2019, decreasing .5 percent per year to an ultimate rate of 5.0 percent for 2024 and later years
General inflation rate	2.75 percent per year

The discount rate was based on the Fidelity Muni Go AA 20 Year Index.

Mortality rates were based on the mortality rates published by CalPERS adjusted to back out 20 years of Scale BB to central year 2008 and then projected forward 6 years using MacLeod Watts Scale 2017 to year 2014.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

All actuarial assumptions used in the June 30, 2018 valuation were based on the results of the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements.

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

	Net OPEB Liability
Balance at June 30, 2017	\$ <u>1,072,269</u>
Changes for the year:	
Service cost	168,137
Interest	35,914
Changes of assumptions	( 95,664)
Benefit payments	( 20,997)
Net changes	<u>87,390</u>
Balance at June 30, 2018	<u>\$ 1,159,659</u>

Changes of assumptions reflects a change in the discount rate from 2.92 percent as of June 30, 2016 to 3.56 percent as of June 30, 2017.

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

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

	1% Decrease 2.56%	Current Rate 3.56%	1% Increase 4.56%
Net OPEB Liability	\$ 1,358,578	\$ 1,159,659	\$ 1,001,246

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

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

	Current Trend -1%	Current Trend	Current Trend +1%
Net OPEB Liability	\$ 978,913	\$ 1,159,659	\$ 1,622,395

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$191,626. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	\$ 33,593	\$ -
Changes of assumptions	<u>-</u>	<u>( 83,240)</u>
Total	<u>\$ 33,593</u>	<u>(\$ 83,240)</u>

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

Year Ended <u>June 30</u>	Recognized Net Deferred Outflows (Inflows) of Resources
2019	(\$ 12,424)
2020	( 12,424)
2021	( 12,424)
2022	( 12,424)
2023	( 12,424)
Thereafter	( 21,120)

**NOTE 10: 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. The District has joined together with other municipalities to participate in the Special District Risk Authority Management (SDRMA) for general liability, vehicle liability, and errors and omissions purposes. SDRMA is a public entity risk pool which serves as a common risk management and insurance program. The District pays an annual premium to SDRMA for its insurance coverage. The agreements with SDRMA provide that they will be self sustaining through member premiums and will reinsure through commercial companies for excess coverage.

There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverages for each of the past three fiscal years.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

**Notes to Basic Financial Statements**

**For the Year Ended June 30, 2018**

**NOTE 11: OTHER INFORMATION**

**A. Subsequent Event**

Management has evaluated events subsequent to June 30, 2018 through XXX, 2019, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**B. Federal Emergency Management Administration (FEMA)/Office of Emergency Services (OES)  
Application and Reimbursement Status for 2017 Storm Emergency**

In January and February 2017, there were storm events that resulted in emergency response costs and damage to infrastructure. A formal disaster emergency was declared by the District and County. The State and federal governments subsequently adopted an emergency declaration that provided for federal and State assistance in reimbursement of certain eligible costs incurred by the District. The District submitted several applications to FEMA/OES representatives.

FEMA/OES reviewed and approved the requests for reimbursement in October 2018, and the District recorded a receivable of \$294,982 as of June 30, 2018.

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**Required Supplementary Information  
(Unaudited)**



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# **Draft Report For Internal Use Only**

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Required Supplementary Information**  
**District Pension Plan**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2018**  
**Last 10 Years\***

<b>Measurement Period</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>	<b>2016/2017</b>
<b>Miscellaneous Plan</b>				
Proportion of the net pension liability	0.01414%	0.01560%	0.01480%	0.01480%
Proportionate share of the net pension liability	\$ 880,120	\$ 1,071,015	\$ 1,282,357	\$ 1,466,045
Covered payroll	641,041	758,445	794,520	746,828
Proportionate share of the net pension liability as a percentage of covered payroll	137.30%	141.21%	161.40%	196.30%
Plan fiduciary net position as a percentage of the total pension liability	77.74%	73.61%	71.62%	72.91%

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\*The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only four years are shown.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Required Supplementary Information**  
**District Pension Plan**  
**Schedule of Contributions**  
**For the Year Ended June 30, 2018**  
**Last 10 Years\***

<b>Fiscal Year</b>	<u>2014/2015</u>	<u>2015/2016</u>	<u>2016/2016</u>	<u>2017/2018</u>
<b>Miscellaneous Plan</b>				
Contractually required contribution (actuarially determined)	\$ 68,280	\$ 65,481	\$ 65,481	\$ 67,344
Contributions in relation to the actuarially determined contributions	<u>(146,425)</u>	<u>(154,320)</u>	<u>(154,320)</u>	<u>(166,813)</u>
Contribution deficiency (excess)	<u>\$ (78,145)</u>	<u>\$ (88,839)</u>	<u>\$ (88,839)</u>	<u>\$ (99,469)</u>
Covered payroll	758,445	794,520	746,828	773,598
Contributions as a percentage of covered payroll	18.37%	19.42%	20.66%	21.56%

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\*The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only four years are shown.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Required Supplementary Information**  
**District Pension Plan**  
**Notes to District Pension Plan**  
**For the Year Ended June 30, 2018**

**NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Change of assumptions: In 2017-18, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016-17, there were no changes. In 2015-16, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense).

**NOTE 2: SCHEDULE OF CONTRIBUTIONS**

Methods and assumptions used to determine the contribution rates were as follows:

Valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2015 Funding Valuation Report
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Required Supplementary Information**  
**District OPEB Plan**  
**Schedule of Changes in the Net OPEB Liability and Related Ratios**  
**For the Year Ended June 30, 2018**  
**Last 10 Years\***

<b>Fiscal Year</b>	<b>2017/18</b>
<b>Net OPEB Liability</b>	
Service Cost	\$ 168,137
Interest	35,914
Changes of assumptions	(95,664)
Benefit payments	<u>(20,997)</u>
<b>Net Change in Net OPEB Liability</b>	87,390
<b>Net OPEB Liability - Beginning</b>	<u>1,072,269</u>
<b>Net OPEB Liability - Ending</b>	<u><u>\$ 1,159,659</u></u>
Covered payroll	\$ 770,191
Net OPEB liability as a percentage of covered payroll	150.57%

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\* The District implemented GASB 75 for fiscal year June 30, 2018, therefore only one year is shown.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Required Supplementary Information**  
**District OPEB Plan**  
**Note to District OPEB Plan**  
**For the Year Ended June 30, 2018**

**NOTE 1: SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**

The Discount rate was changed to 2.92 percent as of June 30, 2016, to 3.56 percent as of June 30, 2017.

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**Combining Fund Statements**



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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Net Position**  
**Sewer Operations**  
**June 30, 2018**

	Sewer	1995-2 Bond Redemption	State Revolving Fund	USDA Solar Loan
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 247,577	393,693	\$ -	\$ 80,027
Investments with fiscal agent	-	175,948	-	-
Receivables:				
Accounts (net of allowance)	105,112	-	-	-
Assessments	-	21,281	-	-
Intergovernmental	294,982	-	-	-
Interest	325	294	-	-
Prepaid costs	20,489	-	-	-
<b>Total Current Assets</b>	<b>668,485</b>	<b>591,216</b>	<b>-</b>	<b>80,027</b>
Noncurrent Assets:				
Advances to other funds	-	-	-	-
Delinquent assessments receivable	-	100,475	-	-
Capital assets, net	3,153,530	-	-	-
<b>Total Noncurrent Assets</b>	<b>3,153,530</b>	<b>100,475</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>3,822,015</b>	<b>691,691</b>	<b>-</b>	<b>80,027</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension adjustments	191,743	-	-	-
Deferred OPEB adjustments	15,638	-	-	-
<b>Total Deferred Outflows of Resources</b>	<b>207,381</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	41,282	-	-	-
Salaries and benefits payable	16,970	-	-	-
Interest payable	-	37,935	-	6,868
Compensated absences	16,857	-	-	-
Bonds	-	175,263	-	-
Certificates of participation	-	-	-	16,000
<b>Total Current Liabilities</b>	<b>75,109</b>	<b>213,198</b>	<b>-</b>	<b>22,868</b>
Noncurrent Liabilities:				
Compensated absences	14,482	-	-	-
Bonds	-	3,190,425	-	-
Certificates of participation	-	-	-	533,500
Net pension liability	716,814	-	-	-
Net OPEB liability	518,717	-	-	-
<b>Total Noncurrent Liabilities</b>	<b>1,250,013</b>	<b>3,190,425</b>	<b>-</b>	<b>533,500</b>
<b>Total Liabilities</b>	<b>1,325,122</b>	<b>3,403,623</b>	<b>-</b>	<b>556,368</b>

<b>Wastewater Capital Facilities Reserved</b>	<b>Wastewater Capital Facilities Unreserved</b>	<b>USDA Reserve Fund</b>	<b>All Bonds Administration</b>	<b>All Bonds Assessment Revolving Fund</b>	<b>Total Sewer Operations</b>
\$ 325,929	\$ 287,126	\$ 31,260	\$ 28,717	\$ 269,859	\$ 1,664,188
-	-	-	-	-	175,948
-	-	-	-	-	105,112
-	-	-	-	-	21,281
-	-	-	-	-	294,982
1,249	1,262	-	131	-	3,261
-	-	-	-	-	20,489
<u>327,178</u>	<u>288,388</u>	<u>31,260</u>	<u>28,848</u>	<u>269,859</u>	<u>2,285,261</u>
-	-	-	-	90,000	90,000
-	-	-	-	-	100,475
-	-	-	-	-	3,153,530
-	-	-	-	90,000	3,344,005
<u>327,178</u>	<u>288,388</u>	<u>31,260</u>	<u>28,848</u>	<u>359,859</u>	<u>5,629,266</u>
-	-	-	-	-	191,743
-	-	-	-	-	15,638
-	-	-	-	-	207,381
-	-	-	-	-	41,282
-	-	-	-	-	16,970
-	-	-	-	-	44,803
-	-	-	-	-	16,857
-	-	-	-	-	175,263
-	-	-	-	-	16,000
-	-	-	-	-	311,175
-	-	-	-	-	14,482
-	-	-	-	-	3,190,425
-	-	-	-	-	533,500
-	-	-	-	-	716,814
-	-	-	-	-	518,717
-	-	-	-	-	4,973,938
-	-	-	-	-	5,285,113

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Net Position**  
**Sewer Operations**  
**June 30, 2018**

	<b>Sewer</b>	<b>1995-2 Bond Redemption</b>	<b>State Revolving Fund</b>	<b>USDA Solar Loan</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension adjustments	39,399	-	-	-
Deferred OPEB adjustments	41,911	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>81,310</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	3,153,530	(3,365,688)	-	(549,500)
Restricted for debt service	-	653,756	-	-
Restricted for capital facilities	-	-	-	-
Unrestricted	(530,566)	-	-	73,159
<b>Total Net Position</b>	<b>\$ 2,622,964</b>	<b>\$ (2,711,932)</b>	<b>\$ -</b>	<b>\$ (476,341)</b>

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<b>Wastewater Capital Facilities Reserved</b>	<b>Wastewater Capital Facilities Unreserved</b>	<b>USDA Reserve Fund</b>	<b>All Bonds Administration</b>	<b>All Bonds Assessment Revolving Fund</b>	<b>Total Sewer Operations</b>
-	-	-	-	-	39,399
-	-	-	-	-	41,911
-	-	-	-	-	81,310
-	-	-	-	-	(761,658)
-	-	31,260	-	-	685,016
327,178	-	-	-	-	327,178
-	288,388	-	28,848	359,859	219,688
<u>\$ 327,178</u>	<u>\$ 288,388</u>	<u>\$ 31,260</u>	<u>\$ 28,848</u>	<u>\$ 359,859</u>	<u>\$ 470,224</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Revenues, Expenses**  
**And Changes in Net Position**  
**Sewer Operations**  
**For the Year Ended June 30, 2018**

	Sewer	1995-2 Bond Redemption	State Revolving Fund	USDA Solar Loan
<b>OPERATING REVENUES</b>				
Assessments	\$ -	\$ 283,863	\$ -	\$ -
Permits and inspections	8,948	-	-	-
Charges for services	1,188,179	-	-	-
Miscellaneous	19,409	35,121	8,499	6,202
<b>Total Operating Revenues</b>	<b>1,216,536</b>	<b>318,984</b>	<b>8,499</b>	<b>6,202</b>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	779,541	-	-	-
Insurance	72,888	-	-	-
Office expenses	24,660	-	-	-
Continuing education	7,170	-	-	-
Dues and subscriptions	7,448	-	-	-
Postage	7,206	-	-	-
Repairs and maintenance	152,666	-	-	-
Gas, fuel and oil	9,155	-	-	-
Supplies	35,285	-	-	-
Professional services	123,881	1,983	-	-
Rents and leases	22,242	-	-	-
Travel	1,660	-	-	-
Telephone	10,809	-	-	-
Power	82,631	-	-	-
Other utilities	2,245	-	-	-
Depreciation	227,334	-	-	-
Other operating	249,922	-	-	-
Office and safety equipment	7,066	-	-	-
Environmental monitoring	32,250	-	-	-
Risk management	18,647	-	-	-
Annual operating fees	1,722	-	-	-
<b>Total Operating Expenses</b>	<b>1,876,428</b>	<b>1,983</b>	<b>-</b>	<b>-</b>
<b>Operating Income (Loss)</b>	<b>(659,892)</b>	<b>317,001</b>	<b>8,499</b>	<b>6,202</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	1,011	4,649	-	71
Interest expense	-	(114,703)	-	(16,524)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>1,011</b>	<b>(110,054)</b>	<b>-</b>	<b>(16,453)</b>
<b>Income (Loss) Before Special Items and Transfers</b>	<b>(658,881)</b>	<b>206,947</b>	<b>8,499</b>	<b>(10,251)</b>
Proceeds for the 2017 storms emergency response and repair	304,407	-	-	-
Transfers in	159,629	-	-	-
Transfers out	(56,742)	-	-	-
<b>Change in Net Position</b>	<b>(251,587)</b>	<b>206,947</b>	<b>8,499</b>	<b>(10,251)</b>

Wastewater Capital Facilities Reserved	Wastewater Capital Facilities Unreserved	USDA Reserve Fund	All Bonds Administration	All Bonds Assessment Revolving Fund	Total Sewer Operations
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 283,863
45,600	-	-	-	-	54,548
-	-	-	-	-	1,188,179
-	-	-	-	-	69,231
45,600	-	-	-	-	1,595,821
-	-	-	-	-	779,541
-	-	-	-	-	72,888
-	-	-	-	-	24,660
-	-	-	-	-	7,170
-	-	-	-	-	7,448
-	-	-	-	-	7,206
-	-	-	-	-	152,666
-	-	-	-	-	9,155
-	-	-	-	-	35,285
-	-	-	7,226	-	133,090
-	-	-	-	-	22,242
-	-	-	-	-	1,660
-	-	-	-	-	10,809
-	-	-	-	-	82,631
-	-	-	-	-	2,245
-	-	-	-	-	227,334
-	-	-	-	-	249,922
-	-	-	-	-	7,066
-	-	-	-	-	32,250
-	-	-	-	-	18,647
-	-	-	-	-	1,722
-	-	-	7,226	-	1,885,637
45,600	-	-	(7,226)	-	(289,816)
3,769	3,870	24	398	-	13,792
-	-	-	-	-	(131,227)
3,769	3,870	24	398	-	(117,435)
49,369	3,870	24	(6,828)	-	(407,251)
-	-	-	-	-	304,407
-	52,742	-	-	8,726	221,097
(19,235)	(140,394)	-	-	-	(216,371)
30,134	(83,782)	24	(6,828)	8,726	(98,118)

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Revenues, Expenses**  
**And Changes in Net Position**  
**Sewer Operations**  
**For the Year Ended June 30, 2018**

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
<b>Total Net Position - Beginning</b>	3,089,980	(2,918,879)	(8,499)	(466,090)
Cumulative effect of a change in accounting principle	(215,429)	-	-	-
<b>Total Net Position - Beginning, restated</b>	2,874,551	(2,918,879)	(8,499)	(466,090)
<b>Total Net Position - Ending</b>	<u>\$ 2,622,964</u>	<u>\$ (2,711,932)</u>	<u>\$ -</u>	<u>\$ (476,341)</u>

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<b>Wastewater Capital Facilities Reserved</b>	<b>Wastewater Capital Facilities Unreserved</b>	<b>USDA Reserve Fund</b>	<b>All Bonds Administration</b>	<b>All Bonds Assessment Revolving Fund</b>	<b>Total Sewer Operations</b>
297,044	372,170	31,236	35,676	351,133	783,771
-	-	-	-	-	(215,429)
297,044	372,170	31,236	35,676	351,133	568,342
<u>\$ 327,178</u>	<u>\$ 288,388</u>	<u>\$ 31,260</u>	<u>\$ 28,848</u>	<u>\$ 359,859</u>	<u>\$ 470,224</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Cash Flows**  
**Sewer Operations**  
**For the Year Ended June 30, 2018**

	Sewer	1995-2 Bond Redemption	State Revolving Fund	USDA Solar Loan
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 1,190,345	\$ 325,722	\$ 8,499	\$ 6,202
Cash paid to suppliers	(1,310,274)	(1,983)	-	-
Cash paid to employees	(611,144)	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(731,073)</b>	<b>323,739</b>	<b>8,499</b>	<b>6,202</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Special project amounts paid	705,293	-	-	-
Interfund loan repayments received	19,085	-	-	-
Interfund loan repayments made	-	-	(8,499)	-
Interfund loans made	-	-	-	-
Transfers in from other funds	159,629	-	-	-
Transfers out to other funds	(56,742)	-	-	-
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>827,265</b>	<b>-</b>	<b>(8,499)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on debt	-	(168,263)	-	(15,500)
Interest paid on debt	-	(116,500)	-	(16,718)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>-</b>	<b>(284,763)</b>	<b>-</b>	<b>(32,218)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	842	4,494	-	73
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>842</b>	<b>4,494</b>	<b>-</b>	<b>73</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>97,034</b>	<b>43,470</b>	<b>-</b>	<b>(25,943)</b>
<b>Balances - Beginning</b>	<b>150,543</b>	<b>526,171</b>	<b>-</b>	<b>105,970</b>
<b>Balances - Ending</b>	<b>\$ 247,577</b>	<b>\$ 569,641</b>	<b>\$ -</b>	<b>\$ 80,027</b>

<b>Wastewater Capital Facilities Reserved</b>	<b>Wastewater Capital Facilities Unreserved</b>	<b>USDA Reserve Fund</b>	<b>All Bonds Administration</b>	<b>All Bonds Assessment Revolving Fund</b>	<b>Total Sewer Operations</b>
\$ 45,600	\$ -	\$ -	\$ -	\$ -	\$ 1,576,368
-	-	-	(7,226)	-	(1,319,483)
-	-	-	-	-	(611,144)
45,600	-	-	(7,226)	-	(354,259)
-	-	-	-	-	705,293
-	6,000	-	-	341,000	366,085
(16,586)	(101,000)	-	-	-	(126,085)
-	-	-	-	(90,000)	(90,000)
-	52,742	-	-	8,726	221,097
(19,235)	(140,394)	-	-	-	(216,371)
(35,821)	(182,652)	-	-	259,726	860,019
-	-	-	-	-	(183,763)
-	-	-	-	-	(133,218)
-	-	-	-	-	(316,981)
3,119	3,213	24	330	-	12,095
3,119	3,213	24	330	-	12,095
12,898	(179,439)	24	(6,896)	259,726	200,874
313,031	466,565	31,236	35,613	10,133	1,639,262
<u>\$ 325,929</u>	<u>\$ 287,126</u>	<u>\$ 31,260</u>	<u>\$ 28,717</u>	<u>\$ 269,859</u>	<u>\$ 1,840,136</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Cash Flows**  
**Sewer Operations**  
**For the Year Ended June 30, 2018**

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (659,892)	\$ 317,001	\$ 8,499	\$ 6,202
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amorization	227,334	-	-	-
Decrease (increase) in:				
Accounts receivable	(27,405)	-	-	-
Assessments receivable	-	6,738	-	-
Taxes receivable	1,214	-	-	-
Prepaid costs	(9,982)	-	-	-
Pension adjustment - deferred outflows	21,941	-	-	-
OPEB adjustment - deferred outflows	(15,638)	-	-	-
Increase (decrease) in:				
Accounts payable	(430,739)	-	-	-
Salaries and benefits payable	(1,383)	-	-	-
Compensated absences payable	11,021	-	-	-
Net pension liability	91,844	-	-	-
Net OPEB liability	53,297	-	-	-
Pension adjustment - deferred inflows	(34,596)	-	-	-
OPEB adjustment - deferred inflows	41,911	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (731,073)</u>	<u>\$ 323,739</u>	<u>\$ 8,499</u>	<u>\$ 6,202</u>

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<u>Wastewater Capital Facilities Reserved</u>	<u>Wastewater Capital Facilities Unreserved</u>	<u>USDA Reserve Fund</u>	<u>All Bonds Administration</u>	<u>All Bonds Assessment Revolving Fund</u>	<u>Total Sewer Operations</u>
\$ 45,600	\$ -	\$ -	\$ (7,226)	\$ -	\$ (289,816)
-	-	-	-	-	227,334
-	-	-	-	-	(27,405)
-	-	-	-	-	6,738
-	-	-	-	-	1,214
-	-	-	-	-	(9,982)
-	-	-	-	-	21,941
-	-	-	-	-	(15,638)
-	-	-	-	-	(430,739)
-	-	-	-	-	(1,383)
-	-	-	-	-	11,021
-	-	-	-	-	91,844
-	-	-	-	-	53,297
-	-	-	-	-	(34,596)
-	-	-	-	-	41,911
<u>\$ 45,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,226)</u>	<u>\$ -</u>	<u>\$ (354,259)</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Net Position**  
**Water Operations**  
**June 30, 2018**

	<b>Water</b>	<b>CIEDB Loan Redemption</b>	<b>CIEDB Loan Reserve</b>
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 304,926	\$ 78,853	\$ 174,217
Receivables:			
Accounts (net of allowance)	156,197	26,093	-
Interest	484	56	827
Prepaid costs	20,663	-	-
<b>Total Current Assets</b>	<b>482,270</b>	<b>105,002</b>	<b>175,044</b>
Noncurrent Assets:			
Capital assets, net	3,430,110	-	-
<b>Total Noncurrent Assets</b>	<b>3,430,110</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>3,912,380</b>	<b>105,002</b>	<b>175,044</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension adjustments	199,255	-	-
Deferred OPEB adjustments	17,955	-	-
<b>Total Deferred Outflows of Resources</b>	<b>217,210</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	27,144	-	-
Salaries and benefits payable	18,717	-	-
Interest payable	-	26,310	-
Compensated absences	12,572	-	-
Loans	-	102,787	-
<b>Total Current Liabilities</b>	<b>58,433</b>	<b>129,097</b>	<b>-</b>
Noncurrent Liabilities:			
Advances from other funds	-	90,000	-
Compensated absences	10,801	-	-
Loans	-	1,711,693	-
Net pension liability	749,231	-	-
Net OPEB obligation	640,942	-	-
<b>Total Noncurrent Liabilities</b>	<b>1,400,974</b>	<b>1,801,693</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,459,407</b>	<b>1,930,790</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension adjustments	39,188	-	-
Deferred OPEB adjustments	41,329	-	-
<b>Total Deferred Inflows of Resources</b>	<b>80,517</b>	<b>-</b>	<b>-</b>

<u>Water Capital Fund</u>	<u>Total Water Operations</u>
\$ 105,494	\$ 663,490
11,783	194,073
-	1,367
-	20,663
<u>117,277</u>	<u>879,593</u>
<u>-</u>	<u>3,430,110</u>
<u>-</u>	<u>3,430,110</u>
<u>117,277</u>	<u>4,309,703</u>
-	199,255
-	17,955
<u>-</u>	<u>217,210</u>
-	27,144
-	18,717
-	26,310
-	12,572
-	102,787
<u>-</u>	<u>187,530</u>
-	90,000
-	10,801
-	1,711,693
-	749,231
-	640,942
<u>-</u>	<u>3,202,667</u>
<u>-</u>	<u>3,390,197</u>
-	39,188
-	41,329
<u>-</u>	<u>80,517</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Net Position**  
**Water Operations**  
**June 30, 2018**

<b>NET POSITION</b>	<b>Water</b>	<b>CIEDB Loan Redemption</b>	<b>CIEDB Loan Reserve</b>
Net investment in capital assets	3,430,110	(1,814,480)	-
Restricted for debt service	-	-	175,044
Restricted for capital facilities	-	-	-
Unrestricted	(840,444)	(11,308)	-
<b>Total Net Position</b>	<b>\$ 2,589,666</b>	<b>\$ (1,825,788)</b>	<b>\$ 175,044</b>

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<b>Water Capital Fund</b>	<b>Total Water Operations</b>
-	1,615,630
-	175,044
117,277	117,277
-	(851,752)
<u>\$ 117,277</u>	<u>\$ 1,056,199</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Revenues, Expenses**  
**And Changes in Net Position**  
**Water Operations**  
**For the Year Ended June 30, 2018**

	<b>Water</b>	<b>CIEDB Loan Redemption</b>	<b>CIEDB Loan Reserve</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,395,893	\$ 250,257	\$ -
Miscellaneous	52,367	-	-
<b>Total Operating Revenues</b>	<u>1,448,260</u>	<u>250,257</u>	<u>-</u>
<b>OPERATING EXPENSES</b>			
Salaries and benefits	853,545	-	-
Insurance	23,794	-	-
Office expenses	24,647	-	-
Continuing education	5,239	-	-
Dues and subscriptions	27,125	-	-
Postage	7,206	-	-
Repairs and maintenance	163,089	-	-
Gas, fuel and oil	7,769	-	-
Supplies	7,482	-	-
Professional services	98,450	-	-
Travel	1,605	-	-
Telephone	10,809	-	-
Power	140,256	-	-
Other utilities	2,244	-	-
Depreciation	182,965	-	-
Other operating	479	-	-
Office and safety equipment	4,320	-	-
Director's compensation	2,002	-	-
Environmental monitoring	16,052	-	-
Risk management	18,647	-	-
Water conservation	7,221	-	-
Water rights	8,509	-	-
Annual operating fees	25,489	5,741	-
<b>Total Operating Expenses</b>	<u>1,638,944</u>	<u>5,741</u>	<u>-</u>
<b>Operating Income (Loss)</b>	<u>(190,684)</u>	<u>244,516</u>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	1,486	166	2,465
Interest expense	-	(65,160)	-
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,486</u>	<u>(64,994)</u>	<u>2,465</u>
<b>Income (Loss) Before Transfers</b>	<u>(189,198)</u>	<u>179,522</u>	<u>2,465</u>
Transfers out	(8,726)	-	-
<b>Change in Net Position</b>	<u>(197,924)</u>	<u>179,522</u>	<u>2,465</u>
<b>Total Net Position - Beginning</b>	3,058,764	(2,005,310)	172,579
Cumulative effect of a change in accounting principle	(271,174)	-	-
<b>Total Net Position - Beginning, restated</b>	<u>2,787,590</u>	<u>(2,005,310)</u>	<u>172,579</u>
<b>Total Net Position - Ending</b>	<u>\$ 2,589,666</u>	<u>\$ (1,825,788)</u>	<u>\$ 175,044</u>

<b>Water Capital Fund</b>	<b>Total Water Operations</b>
\$ 111,238	\$ 1,757,388
-	52,367
<u>111,238</u>	<u>1,809,755</u>
-	853,545
-	23,794
-	24,647
-	5,239
-	27,125
-	7,206
-	163,089
-	7,769
-	7,482
-	98,450
-	1,605
-	10,809
-	140,256
-	2,244
-	182,965
-	479
-	4,320
-	2,002
-	16,052
-	18,647
-	7,221
-	8,509
-	31,230
<u>-</u>	<u>1,644,685</u>
<u>111,238</u>	<u>165,070</u>
-	4,117
<u>-</u>	<u>(65,160)</u>
<u>-</u>	<u>(61,043)</u>
111,238	104,027
<u>-</u>	<u>(8,726)</u>
<u>111,238</u>	<u>95,301</u>
6,039	1,232,072
<u>-</u>	<u>(271,174)</u>
<u>6,039</u>	<u>960,898</u>
<u>\$ 117,277</u>	<u>\$ 1,056,199</u>

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Combining Statement of Cash Flows**  
**Water Operations**  
**For the Year Ended June 30, 2018**

	<b>Water</b>	<b>CIEDB Loan Redemption</b>	<b>CIEDB Loan Reserve</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,433,064	\$ 246,765	\$ -
Cash paid to suppliers	(613,906)	(5,741)	-
Cash paid to employees	(688,321)	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>130,837</b>	<b>241,024</b>	<b>-</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Interfund loan repayments paid	(201,000)	(140,000)	-
Interfund loan repayments received	94,961	90,000	-
Transfers out other funds	(8,726)	-	-
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>(114,765)</b>	<b>(50,000)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on debt	-	(99,330)	-
Interest paid on debt	-	(66,600)	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>-</b>	<b>(165,930)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	1,234	137	2,034
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>1,234</b>	<b>137</b>	<b>2,034</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>17,306</b>	<b>25,231</b>	<b>2,034</b>
<b>Balances - Beginning</b>	<b>287,620</b>	<b>53,622</b>	<b>172,183</b>
<b>Balances - Ending</b>	<b>\$ 304,926</b>	<b>\$ 78,853</b>	<b>\$ 174,217</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (190,684)	\$ 244,516	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation/amortization	182,965	-	-
Decrease (increase) in:			
Accounts receivable	(20,057)	(3,492)	-
Taxes receivable	4,861	-	-
Prepaid costs	(10,156)	-	-
Pension adjustment - deferred outflows	21,941	-	-
OPEB adjustment - deferred outflows	(17,955)	-	-
Increase (decrease) in:			
Accounts payable	(1,316)	-	-
Salaries and benefits payable	4,516	-	-
Compensated absences payable	3,055	-	-
Net pension liability	91,844	-	-
Net OPEB liability	55,090	-	-
Pension adjustment - deferred inflows	(34,596)	-	-
OPEB adjustment - deferred inflows	41,329	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 130,837</b>	<b>\$ 241,024</b>	<b>\$ -</b>

<b>Water Capital Fund</b>	<b>Total Water Operations</b>
\$ 99,455	\$ 1,779,284
-	(619,647)
-	(688,321)
99,455	471,316
-	(341,000)
6,039	191,000
-	(8,726)
6,039	(158,726)
-	(99,330)
-	(66,600)
-	(165,930)
-	3,405
-	3,405
105,494	150,065
-	513,425
\$ 105,494	\$ 663,490
\$ 111,238	\$ 165,070
-	182,965
(11,783)	(35,332)
-	4,861
-	(10,156)
-	21,941
-	(17,955)
-	(1,316)
-	4,516
-	3,055
-	91,844
-	55,090
-	(34,596)
-	41,329
\$ 99,455	\$ 471,316

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## **OTHER REPORT AND SCHEDULE**

- **Other Report**
- **Schedule of Prior Year Findings and Recommendations**



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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**

To the Board of Directors  
Hidden Valley Lake Community Services District  
Hidden Valley Lake, 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 business-type activities and each major fund of Hidden Valley Lake Community Services District, California (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated XXX, 2019.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

To the Board of Directors  
Hidden Valley Lake Community Services District  
Hidden Valley Lake, California

### **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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Purpose of this Report**

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

Smith & Newell CPAs  
Yuba City, California  
XXX, 2019

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**  
**Schedule of Prior Year Findings and Recommendations**  
**For the Year Ended June 30, 2018**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
<b>2017-001</b>	<p><b>Account Balances</b></p> <p><b>Recommendation</b></p> <p>We recommend that the District reconcile and adjust account balances in a timely manner.</p> <p><b>Status</b></p> <p>Implemented</p>

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**120-SEWER ENTERPRISE FUND**

**ADMIN-DEPARTMENTAL**

**EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
120-5-10-5010 SALARIES & WAGES	244,904.00	18,895.18	145,467.74	99,436.26	59.40	20,781.11	20,781.11	20,781.11	20,781.11	20,781.11	20,781.11	249,373.27	(4,469.27)
120-5-10-5020 EMPLOYEE BENEFITS	82,142.00	6,770.15	41,850.25	40,291.75	50.95	5,978.61	5,978.61	5,978.61	5,978.61	5,978.61	5,978.61	71,743.29	10,398.71
120-5-10-5021 RETIREMENT BENEFITS	47,170.00	4,078.44	29,385.74	17,784.26	62.30	4,197.96	4,197.96	4,197.96	4,197.96	4,197.96	4,197.96	50,375.55	(3,205.55)
120-5-10-5063 CERTIFICATIONS	0	0	211.5	-211.5	-	30.21	-	-	-	-	-	211.50	(211.50)
120-5-10-5090 OFFICE SUPPLIES	4,000.00	874.95	2,767.24	1,232.76	69.18	395.32	395.32	395.32	395.32	395.32	395.32	4,743.84	(743.84)
120-5-10-5170 TRAVEL MILEAGE	1,200.00	128.49	869.22	330.78	72.44	124.17	124.17	124.17	124.17	124.17	124.17	1,490.09	(290.09)
120-5-10-5175 EDUCATION / SEMINARS	4,000.00	425	1,034.03	2,965.97	25.85	147.72	147.72	147.72	147.72	147.72	147.72	1,772.62	2,227.38
120-5-10-5179 ADM MISC EXPENSES	350	0	171.73	178.27	49.07	24.53	24.53	24.53	24.53	24.53	24.53	294.39	55.61

**120-SEWER ENTERPRISE FUND**

**FIELD-DEPARTMENTAL**

**EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
120-5-30-5010 SALARIES & WAGES	212,658.00	13,856.13	105,686.22	106,971.78	49.70	15,098.03	15,098.03	15,098.03	15,098.03	15,098.03	15,098.03	181,176.38	31,481.62
120-5-30-5020 EMPLOYEE BENEFITS	44,600.00	6,223.30	35,363.93	9,236.07	79.29	5,051.99	5,051.99	5,051.99	5,051.99	5,051.99	5,051.99	60,623.88	(16,023.88)
120-5-30-5021 RETIREMENT BENEFITS	41,830.00	3,615.30	25,806.82	16,023.18	61.69	3,686.69	3,686.69	3,686.69	3,686.69	3,686.69	3,686.69	44,240.26	(2,410.26)
120-5-30-5022 CLOTHING ALLOWANCE	1,800.00	175.9	1,278.37	521.63	71.02	182.62	-	-	-	-	-	1,278.37	521.63
120-5-30-5063 CERTIFICATIONS	1,500.00	125	295	1,205.00	19.67	42.14	-	-	-	-	-	295.00	1,205.00
120-5-30-5090 OFFICE SUPPLIES	2,000.00	116.45	259.89	1,740.11	12.99	37.13	37.13	37.13	37.13	37.13	37.13	445.53	1,554.47
120-5-30-5170 TRAVEL MILEAGE	500	0	143.06	356.94	28.61	20.44	20.44	20.44	20.44	20.44	20.44	245.25	254.75
120-5-30-5175 EDUCATION / SEMINARS	4,000.00	93.97	807.92	3,192.08	20.20	115.42	115.42	115.42	115.42	115.42	115.42	1,385.01	2,614.99



**120-SEWER ENTERPRISE FUND**

**DIRECTORS-DEPARTMENTAL**

**EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
120-5-40-5010 DIRECTORS COMPENSATION	3,000.00	0	936.6	2,063.40	31.22	133.80	133.80	133.80	133.80	133.80	133.80	1,605.60	1,394.40
120-5-40-5020 DIRECTOR BENEFITS	100	0	26.97	73.03	26.97	3.85	3.85	3.85	3.85	3.85	3.85	46.23	53.77
120-5-40-5030 DIRECTOR HEALTH BENEFITS	40,116.00	3,360.90	23,029.05	17,086.95	57.41	3,289.86	3,289.86	3,289.86	3,289.86	3,289.86	3,289.86	39,478.37	637.63
120-5-40-5170 TRAVEL MILEAGE	200	0	0	200	-	-	-	-	-	-	-	-	200.00
120-5-40-5175 EDUCATION / SEMINARS	0	0	0	0	-	-	-	-	-	-	-	-	-
120-5-40-5176 DIRECTOR TRAINING	1,500.00	0	0	1,500.00	-	-	-	-	-	-	-	-	1,500.00

**120-SEWER ENTERPRISE FUND**

**SPECIAL PROJECTS**

**EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
120-5-60-6001 PW LKHVA01	0	0	0	0	-	-	-	-	-	-	-	-	-
120-5-60-6002 PW LKHVB02	0	0	0	0	-	-	-	-	-	-	-	-	-
120-5-60-6003 PW LKHVA81	0	0	0	0	-	-	-	-	-	-	-	-	-
120-5-60-6004 PW LKHVB82	0	0	0	0	-	-	-	-	-	-	-	-	-
120-5-60-6005 PW LKHVF84	0	0	0	0	-	-	-	-	-	-	-	-	-
120-5-60-6006 PW LKHVF83	0	631.32	281,842.06	-281,842.06	-	40,263.15	-	-	-	-	-	281,842.06	(281,842.06)

**120-SEWER ENTERPRISE FUND**

**CAPITAL PROJECTS & EQUIP**

**EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
120-5-70-7201 I & I	55,000.00	12,000.02	37,001.96	17,998.04	67.28	5,285.99		-	-	-	-	37,001.96	n/a

\*\*\* END OF REPORT \*\*\*

<b>130-WATER ENTERPRISE FUND REVENUES</b>	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
130-4035 RECONNECT FEE	13,000.00	90	5,855.00	7,145.00	45.04	836.43	836.43	836.43	836.43	836.43	836.43	10,037.14	2,962.86
130-4038 COMM WATER METER INSTALL	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4039 WATER METER INST	1,000.00	170	510	490	51.00	72.86	-	-	-	-	-	510.00	490.00
130-4040 RECORDING FEE	500	0	180.46	319.54	36.09	25.78	-	-	-	-	-	180.46	319.54
130-4045 AVAILABILITY FEES	25,000.00	0	3,675.16	21,324.84	14.70	525.02	525.02	525.02	525.02	525.02	525.02	6,300.27	18,699.73
130-4110 COMM WATER USE	85,000.00	0	50,536.81	34,463.19	59.46	7,219.54	7,219.54	7,219.54	7,219.54	7,219.54	7,219.54	86,634.53	(1,634.53)
130-4112 GOV'T WATER USE	6,000.00	0	2,507.38	3,492.62	41.79	358.20	358.20	358.20	358.20	358.20	358.20	4,298.37	1,701.63
130-4115 WATER USE	1,750,000.00	1,320.45	972,068.00	1,056,141.50	39.65	138,866.86	138,866.86	138,866.86	138,866.86	138,866.86	138,866.86	1,666,402.29	83,597.71
130-4117 WATER OVERAGE FEE	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4118 WATER OVERAGE COMM	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4119 WATER OVERAGE GOV	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4210 LATE FEE	25,000.00	2,205.77	20,449.01	4,550.99	81.80	2,921.29	2,921.29	2,921.29	2,921.29	2,921.29	2,921.29	35,055.45	(10,055.45)
130-4215 RETURNED CHECK FEE	1,000.00	100	450	550	45.00	64.29	64.29	64.29	64.29	64.29	64.29	771.43	228.57
130-4300 MISC INCOME	2,000.00	133.25	6,276.36	-4,276.36	313.82	896.62	896.62	896.62	896.62	896.62	896.62	10,759.47	(8,759.47)
130-4310 OTHER INCOME	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4505 LEASE INCOME	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4550 INTEREST INCOME	700	0	1,089.98	-389.98	155.71	155.71	155.71	155.71	155.71	155.71	155.71	1,868.54	(1,168.54)
130-4580 TRANSFER IN	0	0	69,448.78	-69,448.78	-	9,921.25	9,921.25	9,921.25	9,921.25	9,921.25	9,921.25	119,055.05	(119,055.05)
130-4591 INCOME APPLICABLE TO PRIOR YRS	0	0	0	0	-	-	-	-	-	-	-	-	-
130-4955 Gain/Loss	0	0	0	0	-	-	-	-	-	-	-	-	-
<b>130-WATER ENTERPRISE FUND NON-DEPARTMENTAL EXPENDITURES</b>	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
130-5-00-5024 WORKERS' COMP INSURANCE	0	0	350.7	-350.7	-	50.10	-	-	-	-	-	350.70	(350.70)
130-5-00-5025 RETIREE HEALTH BENEFITS	21,472.00	1,798.77	6,832.26	14,639.74	31.82	1,798.77	-	-	-	-	-	21,585.24	(113.24)
130-5-00-5026 COBRA Health & Dental	0	0	0	0	-	-	-	-	-	-	-	-	-
130-5-00-5040 ELECTION EXPENSE	4,500.00	0	0	4,500.00	-	-	-	-	-	-	-	-	4,500.00
130-5-00-5050 DEPRECIATION	0	0	0	0	-	-	-	-	-	-	-	-	-
130-5-00-5060 GASOLINE, OIL & FUEL	6,500.00	758.26	6,043.43	456.57	92.98	863.35	863.35	863.35	863.35	863.35	863.35	10,360.17	(3,860.17)
130-5-00-5061 VEHICLE MAINT	12,500.00	728.75	5,032.87	7,467.13	40.26	718.98	718.98	718.98	718.98	718.98	718.98	8,627.78	3,872.22
130-5-00-5062 TAXES & LIC	1,200.00	0	311	889	25.92	44.43	44.43	44.43	44.43	44.43	44.43	533.14	666.86
130-5-00-5074 INSURANCE	25,000.00	0	25,770.88	-770.88	103.08	3,681.55	3,681.55	3,681.55	3,681.55	3,681.55	3,681.55	44,178.65	(19,178.65)
130-5-00-5075 BANK FEES	13,500.00	1,464.14	10,453.60	3,046.40	77.43	1,493.37	1,493.37	1,493.37	1,493.37	1,493.37	1,493.37	17,920.46	(4,420.46)
130-5-00-5080 MEMBERSHIP & SUBSCRIPTIONS	24,000.00	100	18,749.00	5,251.00	78.12	2,678.43	2,678.43	2,678.43	2,678.43	2,678.43	2,678.43	32,141.14	(8,141.14)
130-5-00-5092 POSTAGE & SHIPPING	6,000.00	518.59	2,933.76	3,066.24	48.90	419.11	419.11	419.11	419.11	419.11	419.11	5,029.30	970.70
130-5-00-5110 CONTRACTUAL SERVICES	0	0	0	0	-	-	-	-	-	-	-	-	-
130-5-00-5121 LEGAL SERVICES	1,000.00	0	1,372.50	-372.5	137.25	196.07	196.07	196.07	196.07	196.07	196.07	2,352.86	(1,352.86)
130-5-00-5122 ENGINEERING SERVICES	60,000.00	4,908.75	7,524.35	52,475.65	12.54	1,074.91	1,074.91	1,074.91	1,074.91	1,074.91	1,074.91	12,898.89	47,101.11
130-5-00-5123 OTHER PROFESSIONAL SERVICE	35,000.00	0	15,183.57	19,816.43	43.38	2,169.08	2,169.08	2,169.08	2,169.08	2,169.08	2,169.08	26,028.98	8,971.02
130-5-00-5124 WATER RIGHTS	70,000.00	1,840.00	15,960.87	54,039.13	22.80	2,280.12	2,280.12	2,280.12	2,280.12	2,280.12	2,280.12	27,361.49	42,638.51



**130-WATER ENTERPRISE FUND**

**NON-DEPARTMENTAL EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
130-5-10-5010 SALARIES & WAGES	244,904.00	18,895.34	145,330.60	99,573.40	59.34	20,761.51	20,761.51	20,761.51	20,761.51	20,761.51	20,761.51	249,138.17	(4,234.17)
130-5-10-5020 EMPLOYEE BENEFITS	88,289.00	6,770.07	41,846.79	46,442.21	47.40	5,978.11	5,978.11	5,978.11	5,978.11	5,978.11	5,978.11	71,737.35	16,551.65
130-5-10-5021 RETIREMENT BENEFITS	47,170.00	4,078.43	29,376.06	17,793.94	62.28	4,196.58	4,196.58	4,196.58	4,196.58	4,196.58	4,196.58	50,358.96	(3,188.96)
130-5-10-5063 CERTIFICATIONS	0	0	32.5	-32.5	-	4.64	-	-	-	-	-	32.50	(32.50)
130-5-10-5090 OFFICE SUPPLIES	3,000.00	874.98	2,767.31	232.69	92.24	395.33	395.33	395.33	395.33	395.33	395.33	4,743.96	(1,743.96)
130-5-10-5170 TRAVEL MILEAGE	2,000.00	128.5	898.73	1,101.27	44.94	128.39	128.39	128.39	128.39	128.39	128.39	1,540.68	459.32
130-5-10-5175 EDUCATION / SEMINARS	4,000.00	425	1,249.01	2,750.99	31.23	178.43	178.43	178.43	178.43	178.43	178.43	2,141.16	1,858.84
130-5-10-5179 ADM MISC EXPENSES	350	0	171.73	178.27	49.07	24.53	24.53	24.53	24.53	24.53	24.53	294.39	55.61
130-5-10-5505 WATER CONSERVATION	0	0	0	0	-	-	-	-	-	-	-	-	-

**130-WATER ENTERPRISE FUND**

**FIELD EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
130-5-30-5010 SALARIES & WAGES	212,658.00	17,505.14	133,045.00	79,613.00	62.56	19,006.43	19,006.43	19,006.43	19,006.43	19,006.43	19,006.43	228,077.14	(15,419.14)
130-5-30-5020 EMPLOYEE BENEFITS	44,600.00	6,396.72	35,537.36	9,062.64	79.68	5,076.77	5,076.77	5,076.77	5,076.77	5,076.77	5,076.77	60,921.19	(16,321.19)
130-5-30-5021 RETIREMENT BENEFITS	41,830.00	3,996.87	28,633.19	13,196.81	68.45	4,090.46	4,090.46	4,090.46	4,090.46	4,090.46	4,090.46	49,085.47	(7,255.47)
130-5-30-5022 CLOTHING ALLOWANCE	1,800.00	175.91	1,278.37	521.63	71.02	182.62	-	-	-	-	-	1,278.37	521.63
130-5-30-5063 CERTIFICATIONS	600	150	210	390	35.00	30.00	30.00	30.00	30.00	30.00	30.00	360.00	240.00
130-5-30-5090 OFFICE SUPPLIES	2,000.00	32.78	176.24	1,823.76	8.81	25.18	25.18	25.18	25.18	25.18	25.18	302.13	1,697.87
130-5-30-5170 TRAVEL MILEAGE	1,800.00	0	171.18	1,628.82	9.51	24.45	24.45	24.45	24.45	24.45	24.45	293.45	1,506.55
130-5-30-5175 EDUCATION / SEMINARS	4,000.00	0	1,413.95	2,586.05	35.35	201.99	201.99	201.99	201.99	201.99	201.99	2,423.91	1,576.09

**130-WATER ENTERPRISE FUND**

**DIRECTORS**

**EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
130-5-40-5010 DIRECTORS COMPENSATION	3,000.00	0	1,001.10	1,998.90	33.37	143.01	143.01	143.01	143.01	143.01	143.01	1,716.17	1,283.83
130-5-40-5020 DIRECTOR BENEFITS	100	3,360.90	3,389.73	-3,289.73	3,389.73	484.25	484.25	484.25	484.25	484.25	484.25	5,810.97	(5,710.97)
130-5-40-5030 DIRECTOR HEALTH BENEFITS	40,116.00	0	19,668.15	20,447.85	49.03	2,809.74	2,809.74	2,809.74	2,809.74	2,809.74	2,809.74	33,716.83	6,399.17
130-5-40-5080 MEMBERSHIP & SUBSCRIPTION	0	0	0	0	-	-	-	-	-	-	-	-	-
130-5-40-5170 TRAVEL MILEAGE	200	0	0	200	-	-	-	-	-	-	-	-	200.00
130-5-40-5175 EDUCATION / SEMINARS	0	0	0	0	-	-	-	-	-	-	-	-	-
130-5-40-5176 DIRECTOR TRAINING	1,500.00	0	0	1,500.00	-	-	-	-	-	-	-	-	1,500.00
*** END OF REPORT ***													

**140-FLOOD ENTERPRISE FUND**

**NON-DEPARTMENTAL EXPENDITURES**

	<b>CURRENT BUDGET</b>	<b>CURRENT PERIOD</b>	<b>YEAR TO DATE ACTUAL</b>	<b>BUDGET BALANCE</b>	<b>% OF BUDGET</b>	<b>Monthly Ave (7 mo.)</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Year End Total Est</b>	<b>under/(over)</b>
140-5-00-5192 ELECTRICITY	2,000.00	0	535.61	1,464.39	26.78	76.52	76.52	76.52	76.52	76.52	76.52	918.19	1,081.81



HIDDEN VALLEY LAKE  
COMMUNITY SERVICES DISTRICT

## WATER, SEWER & RECYCLED WATER RATE STUDY REPORT

*Administrative Draft Report*

October 2018

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## SECTION 1. BACKGROUND, PURPOSE AND OVERVIEW OF THE STUDY

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### BACKGROUND

In 2014, the Hidden Valley Community Services District (“District”) retained NBS to complete a water and sewer rate study which resulted in a March 2015 rate study report, and new rates were implemented soon after. However, within a month, the San Juan Capistrano court decision was issued; this decision had significant implications for how tiered rates are designed. Essentially, the decision required water agencies to “*demonstrate that the tiers correspond to the actual cost of providing service at a given level of usage.*” In addition, the severe drought across California and mandated conservation prompted the District to replace its four-tiered rates with a new uniform (single tier) rate and new drought surcharges.

***“Significant declines in water use have impacted the District’s revenues and reserves.”***

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Since then, the District has been pondering additional changes in consumption patterns, water supply limitations, future CIP funding requirements, and the desire to continue to improve the fairness and equity of rates. In light of these considerations, an updated rate study was needed.

### PURPOSE

The District retained NBS again in December 2017 to re-evaluate its water, sewer and recycled water rates to ensure its rates meet basic Proposition 218 (Prop 218) requirements, industry standards, and reflect the District’s priority of maintaining transparent communications between the District and its residents and businesses.

### OVERVIEW OF THE STUDY

In developing the proposed new water and sewer rates, NBS and District Staff worked cooperatively with the District’s Board and presented an overview of study results and rate alternatives on **October \_\_, 2018**. The Board provided NBS and District Staff with direction and feedback. Based on this input, NBS recommends the water, sewer and recycled water rates summarized below.

**Key Issues Addressed** – In addition to ensuring that water and sewer rates collect sufficient revenue to meet the annual operating costs and capital improvement plans, other key issues addressed included:

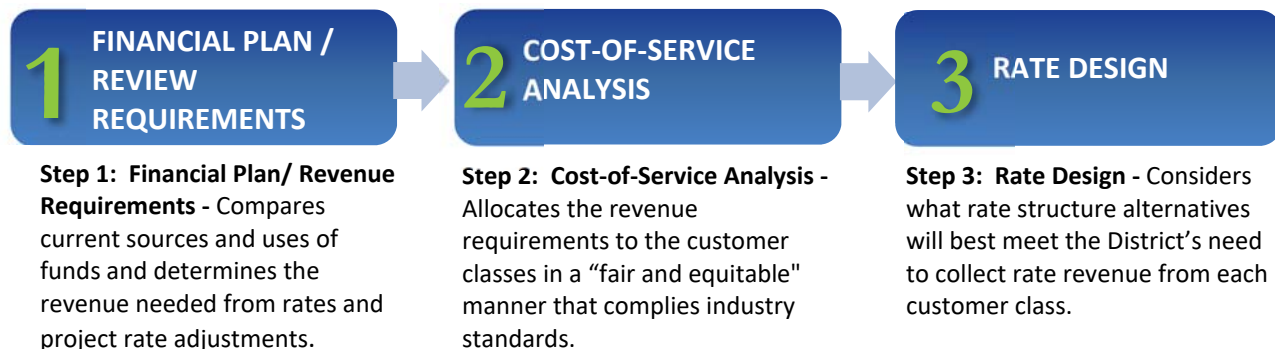
- Lower water sales over the last few years due to the drought and conservation concerns
- In particular, consumption records indicate that commercial water use has significantly increased while residential has significantly decreased
- Chromium 6 treatment costs
- Water supply limitations and plans to build a new well
- Changes in annual operating costs, including potential adjustments resulting from the District’s salary survey once results are available
- The need to build adequate CIP and replacement reserves
- SRF loans and debt service payments

**Recommendations** – As a part of the long-range financial plan, NBS evaluated projected revenues and expenditures to determine net revenue requirements. In light of the water utility’s declines in water sales and planned capital improvements, it will be critical to rebuild water reserve funds. While the sewer utility has reasonably healthy reserves, those reserves will be needed to cover current deficits and fund capital projects. NBS recommends the District adopt the rate increases shown in the water, sewer and recycled water rates described below in this report.

## RATE STUDY METHODOLOGY

**Components of the Rate Study Methodology** – A comprehensive utility rate study typically has three major components: (1) the utility’s overall revenue requirements and financial plan, (2) the cost-of-service for each customer class, and (3) rate structure design, as shown in **Figure 1**. These components reflect industry standards, primarily from the American Water Works Association (AWWA)<sup>1</sup>, and address the general requirements for equity and fairness. In terms of the chronology of the study, these three steps represent the order they were performed in this study.

**Figure 1: Primary Components of a Rate Study**



The following sections in this report present an overview of the methodologies, assumptions, and data used along with the financial plans and rates developed.

**Rate Design Criteria** – Several criteria are typically considered in setting rates and developing sound rate structures. The fundamentals of this process have been documented in several rate-setting manuals. For example, the foundation for evaluating rate structures is generally credited to James C. Bonbright in the *Principles of Public Utility Rates*<sup>2</sup>, which outlines pricing policies, theories, and economic concepts along with various rate designs. The other common industry standard is AWWA Manual M1. The following is a simplified list of the attributes of a sound rate structure:

- Rates should be easy to understand from the customer’s perspective.
- Rates should be easy to administer from the utility’s perspective.
- Rates should promote the efficient allocation of the resource.
- Rates should be equitable and non-discriminating (e.g., cost based).
- There should be continuity in the rate making philosophy over time.
- Other utility policies should be considered (e.g., encouraging conservation & economic development).
- Rates should consider the customer’s ability to pay.
- Rates should provide month-to-month and year-to-year revenue stability.

The following section covers basic rate design criteria that NBS and District staff considered as a part of their review of the rate structure alternatives.

<sup>1</sup> *Principles of Water Rates, Fees, and Charges*, Manual of Water Supply Practices, M1, AWWA, seventh edition, 2017.

<sup>2</sup> James C. Bonbright; Albert L. Danielsen and David R. Kamerschen, *Principles of Public Utility Rates*, (Arlington, VA: Public Utilities Report, Inc., Second Edition, 1988), p. 383-384.



**Rate Structure Issues** – The relationship between fixed costs and variable costs is one of the most fundamental rate structures considerations. Fixed costs typically do not vary with the amount of water consumed. Debt service and District personnel are examples of fixed costs. In contrast, variable costs such as the cost of chemicals and electricity tend to change with the quantity of water sold. The vast majority of rate structures contain a fixed or minimum charge in combination with a volumetric charge.

The District’s rate design objectives are not necessarily the same as those in other communities. For example, some communities, particularly those with very expensive purchased water costs, place a very high priority on conservation-oriented rates. Other communities, particularly those who have many low-income customers, want to implement low-income subsidies.

In the last rate study, the District considered various combinations of fixed vs. variable charges, and determined that collecting 60 percent of rate revenue from fixed charges and 40 percent from variable charges was preferred. Additionally, the previous four-tiered volumetric rates were replaced with a single-tier (uniform) volumetric rate. This water rate design still appears to be a good fit in light of the District’s projected water sales and need to consider revenue sufficiency going forward.

### **Key Financial Assumptions**

Following are the key assumptions used in the water, sewer and recycled water rate analyses:

- **Funding of Capital Projects** – After extensive review of the planned capital improvement projects (CIP) and funding requirements by the District and its engineering consultant, the District has decided that the water utility will fund 50% with SRF loans and the other 50% with Prop 1 Grants to fund the high CIP costs over the next several years. The sewer and recycled water utility will fund the majority of the projects with rate revenue with the exception of a Tideflex Stormwater project, which will be funded with SRF and Prop 1 funds.
- **Reserve Targets** – The water utility reserves are below target levels, while the sewer utility reserves are current in decent shape and slightly above target levels. Going forward, the target reserves for operations and maintenance (O&M) and capital rehabilitation and replacement (R&R) follow general industry standards for utility fund management. This includes approximately 90-days of O&M expenses for both the water and sewer Operating and Maintenance Reserves, and approximately 3% of net assets as the target reserve level for the Rehabilitation and Replacement Reserves.
- **Inflation and Growth Projections:**
  - ✓ Customer growth is assumed to be 0.25% annually. While some additional growth may occur<sup>3</sup>, NBS did not rely on any additional growth during the next five years.
  - ✓ General cost inflation is about 3% annually.
  - ✓ Operating expenses, which include among other things labor costs, health benefits, and retirement benefits, are inflated at a rate of approximately 3% to 4% annually.
  - ✓ No inflation is added to other costs.

The next two sections discuss the water, sewer and recycled water rate studies.

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<sup>3</sup> The District has roughly 700 undeveloped lots, these are not expected to develop within the timeframe of this study.

## SECTION 2. WATER RATE STUDY

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### A. KEY WATER RATE STUDY ISSUES

The water rate analysis was undertaken with a few specific objectives, including:

- Analyze consumption data changes over past several years.
- Generating additional revenue to meet projected funding requirements and rebuild reserve funds,
- Consider the percent of water rate revenue collected from volumetric rates vs. fixed monthly charges in light of recent conservation. In 2017, the District’s water rates collected approximately 60% of rate revenue from fixed charges and 40% from volumetric rates, which was the rate design adopted in the last rate study.
- Update fixed charges and volumetric rates to reflect changes in consumption patterns.

NBS developed several water rate alternatives over the course of this study based on industry standards and cost-of-service principles. The fixed and volumetric charges were calculated based on the net revenue requirements, number of customer accounts, water consumption, and other District-provided information. The following are the basic components included in this analysis:

- **Developing Unit Costs:** The water revenue requirements were “functionalized” into three categories: (1) fixed capacity costs; (2) variable costs (or volume-based), and; (3) customer service costs. Unit costs for each of these categories were then allocated to functional areas, including water consumption, peaking factors, number of accounts by meter size, and customer class.
- **Determining Revenue Requirements by Customer Class:** The total revenue collected from each customer class was determined using the unit costs and the total units belonging to each class. For example, volume-related costs are allocated based on the water consumption for each class, while customer costs are allocated based on number of meters. Once the revenue requirement for each customer class is determined, collecting these revenue requirements from each customer class is addressed in the rate design task.
- **Rate Design and Fixed vs. Variable Costs:** The revenue requirements for each customer class are collected from fixed charges and volumetric rates. The cost of service analysis indicated that an allocation of 60% of the costs to fixed and 40% to variable rates is a reasonable basis for rate design. State agencies, such as the California Water Efficiency Partnership, would like water utilities to collect at least 70% of rate revenue from volumetric rates. However, many utilities prefer to collect less than 70% from volumetric rates because of the revenue instability that can result when water use drops unexpectedly. As a compromise, NBS recommends the rates proposed in this report collect 40% of revenue from volumetric charges and 60% from fixed charges.

*“The best way to promote financial stability is to collect fixed costs through fixed charges.”*

### B. WATER UTILITY REVENUE REQUIREMENTS

Rate increases for municipal utilities are governed by the need to meet operating and capital costs, and maintain adequate debt coverage. It is also important to maintain reasonable reserves in order to handle minor emergencies, fund working capital, maintain a good credit rating, and generally follow sound financial management practices. The current financial state of the District’s water utility is as follows:

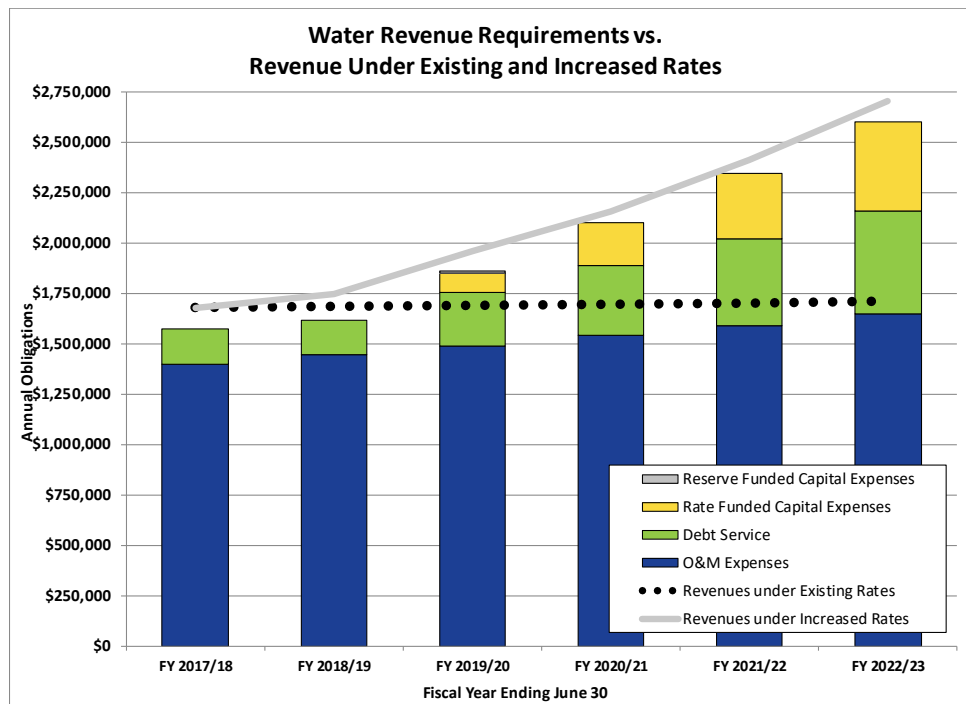
**Meeting Net Revenue Requirements:** For Fiscal Years 2017/18 through 2022/23, the projected net revenue requirement that must be recovered from rates increases by almost 68%, from \$1.50 million to \$2.26 million, as shown in **Figures 2 and 3**. Although the water utility's current rates produce a small surplus, without additional rate increases that surplus will turn into that grow to almost \$900,000 by FY 2022/23.

**Figure 2. Summary of Water Revenue Requirements**

Summary of Sources and Uses of Funds and Net Revenue Requirements <sup>1</sup>	Budget		Projected			
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Sources of Water Funds</b>						
Rate Revenue Under Existing Rates	\$ 1,606,921	\$ 1,610,938	\$ 1,614,966	\$ 1,619,003	\$ 1,623,051	\$ 1,627,108
Other Operating Revenue	69,800	69,912	70,024	70,137	70,250	70,363
Interest Earnings	500	1,926	3,440	5,895	8,414	11,355
<b>Total Sources of Potable Funds</b>	<b>\$ 1,677,221</b>	<b>\$ 1,682,776</b>	<b>\$ 1,688,430</b>	<b>\$ 1,695,035</b>	<b>\$ 1,701,714</b>	<b>\$ 1,708,826</b>
<b>Uses of Water Funds</b>						
Salaries & Benefits	\$ 637,403	\$ 657,036	\$ 679,277	\$ 704,353	\$ 732,619	\$ 764,604
Water Rights	70,000	72,380	74,551	76,788	79,015	81,306
Repair & Replacement	185,000	191,290	197,029	202,940	208,825	214,881
Electricity	107,711	109,865	112,063	114,304	116,590	118,922
All Other Expenses	399,009	413,111	426,215	439,759	453,357	467,403
Potable System Debt Service	171,672	171,374	262,384	345,953	427,641	509,435
Rate-Funded Capital Expenses	-	-	97,780	213,747	325,917	441,138
<b>Total Use of Potable Water Funds</b>	<b>\$ 1,570,795</b>	<b>\$ 1,615,056</b>	<b>\$ 1,849,298</b>	<b>\$ 2,097,843</b>	<b>\$ 2,343,963</b>	<b>\$ 2,597,688</b>
<b>Surplus/(Deficiency) before Rate Increase</b>	<b>\$ 106,426</b>	<b>\$ 67,720</b>	<b>\$ (160,868)</b>	<b>\$ (402,808)</b>	<b>\$ (642,249)</b>	<b>\$ (888,862)</b>
Additional Revenue from Rate Increases	-	64,438	268,730	458,243	709,281	991,634
<b>Surplus/(Deficiency) after Rate Increase</b>	<b>\$ 106,426</b>	<b>\$ 132,158</b>	<b>\$ 107,862</b>	<b>\$ 55,435</b>	<b>\$ 67,032</b>	<b>\$ 102,772</b>
<b>Projected Annual Potable Rate Revenue Increase</b>	<b>0.00%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>10.00%</b>	<b>12.00%</b>	<b>12.00%</b>
<b>Net Revenue Requirement - Potable System</b>	<b>\$ 1,500,495</b>	<b>\$ 1,543,218</b>	<b>\$ 1,775,834</b>	<b>\$ 2,021,811</b>	<b>\$ 2,265,300</b>	<b>\$ 2,515,970</b>
<b>Overall Debt Coverage Ratio</b>	<b>6.05</b>	<b>6.36</b>	<b>4.87</b>	<b>4.18</b>	<b>3.92</b>	<b>3.80</b>

1. Revenues and Expenditures budgeted for FY 2017-18 found in source file: #1 - Approved 2018-2018 budget.pdf

**Figure 3. Water Revenue Requirements through FY 2022/23**



The District is planning on using SRF funding as well as Prop 1 Grant funding to pay for the Capital Improvement Plans. To fund the debt service that will start in FY 19/20, recommended annual rate increases of 8%, 8%, 10%, 12% and 12% are needed starting in FY 18/19 to fund all O&M costs and CIP debt service payments.

**Figure 4** summarizes the projected reserve fund balances and reserve targets for the next five years. **Figure 5** indicates that, assuming the proposed rate increases are adopted, the District’s reserves will increase over the next five years, and will keep up with the reserve fund target, which is growing to account for the additional capital improvements the District will be building.

**Figure 4. Summary of Water Reserve Funds**

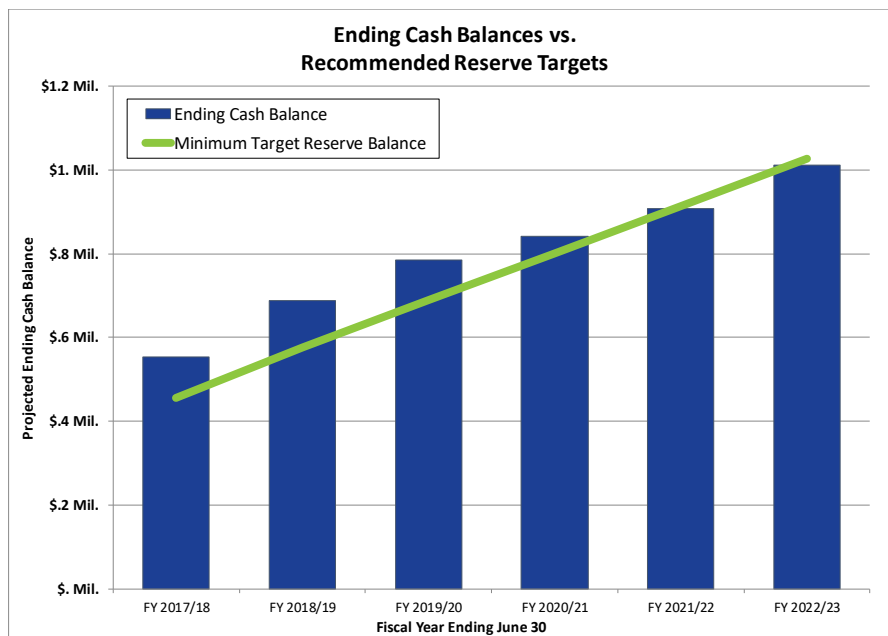
Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected				
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Operating Reserve <sup>1</sup></b>						
Ending Balance	\$ 350,000	\$ 361,000	\$ 372,000	\$ 385,000	\$ 398,000	\$ 412,000
<i>Recommended Minimum Target</i>	<i>350,000</i>	<i>361,000</i>	<i>372,000</i>	<i>385,000</i>	<i>398,000</i>	<i>412,000</i>
<b>Water Capital Fund <sup>2</sup></b>						
Ending Balance	\$ 204,963	\$ 327,014	\$ 413,962	\$ 456,397	\$ 510,429	\$ 599,200
<i>Recommended Minimum Target</i>	<i>105,400</i>	<i>216,000</i>	<i>317,100</i>	<i>415,900</i>	<i>515,200</i>	<i>614,900</i>
<b>Debt Reserve <sup>3</sup></b>						
Ending Balance	\$ 171,672	\$ 171,374	\$ 172,231	\$ 173,523	\$ 175,258	\$ 177,449
<i>Recommended Minimum Target</i>	<i>171,672</i>	<i>171,374</i>	<i>262,384</i>	<i>345,953</i>	<i>427,641</i>	<i>509,435</i>
<b>Total Ending Balance</b>	<b>\$ 726,635</b>	<b>\$ 859,388</b>	<b>\$ 958,193</b>	<b>\$ 1,014,919</b>	<b>\$ 1,083,686</b>	<b>\$ 1,188,649</b>
<i>Total Recommended Minimum Target</i>	<i>627,072</i>	<i>748,374</i>	<i>951,484</i>	<i>1,146,853</i>	<i>1,340,841</i>	<i>1,536,335</i>

1. Water Operations Cash balance found in Source File: #3 - FY End 2017 Hidden Valley Lake Audit.pdf, Page 12.

2. Water Operations restricted for capital facilities found in Source File: #3 - FY End 2017 Hidden Valley Lake Audit.pdf, Page 13.

3. Water Operations restricted for debt service found in Source File: #3 - FY End 2017 Hidden Valley Lake Audit.pdf, Page 13.

**Figure 5. Water Reserve Funds through FY 2022/23**



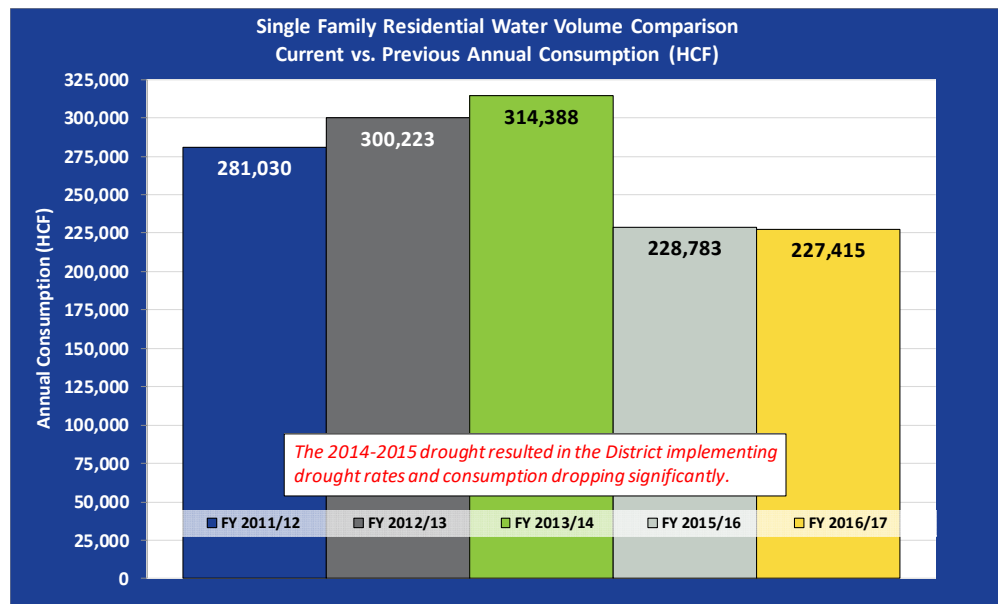
**Building and Maintaining Reserve Funds:** The Water Utility should maintain sufficient reserves. NBS recommends the District adopt and maintain the following reserve fund target balances:

- ✓ **Operating Reserve** should normally be equal to 25% of the Utility’s budgeted annual operating expenses, which is equal to a three-month (or 90-day) cash cushion for normal operations. An Operating Reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures. Fluctuations might be caused by weather patterns, the natural inflow and outflow of cash during billing cycles, natural variability in demand-based revenue streams (e.g., volumetric charges), and – particularly in periods of economic distress – changes or trends in age of receivables.
- ✓ **Capital Rehabilitation and Replacement (R&R) Reserve** are typically about 3% of net depreciable capital assets, which equates to a 33-year replacement cycle for capital assets.
- ✓ **Debt Reserve** is the reserve requirement for the CEIDB loan of approximately \$170,000.
- ✓ **OPEB<sup>4</sup> Reserve** – The District’s is establishing this reserve fund to begin addressing its current liability for post-retirement benefits, with the intent of increasing annual contributions in the future.

A summary of the water utility’s proposed 10-year financial plan is included in Appendix A – Water Rate Study Summary Tables. These tables include revenue requirements, reserve funds, revenue source and proposed rate increases for the 10-year period.

**Summary of Changing Consumption Patterns:** NBS confirmed that customer billing data indicates that the District has experienced lower than expected water rate revenues. This was primarily related to the drop in residential water use shown in **Figure 6**, which indicate that residential consumption decreased by 27%. This reflects the drought and drought-related conservation mandates that impacted water supplies throughout most of California. An additional factor that affected consumption was the drought surcharges that the District implemented from 2015 until April 2017.

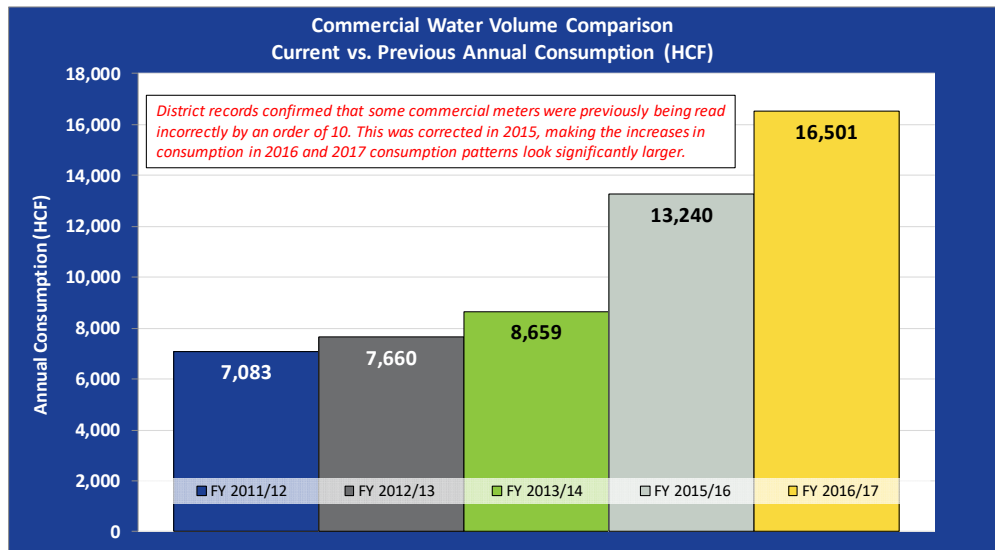
**Figure 6: Annual Water Consumption for Single Family Residential Customers from 2011-2017**



<sup>4</sup> OPEB refers to “Other Post-Employment Benefits”.

District staff also became aware of an issue of incorrect meter readings for some commercial and municipal customers. The lower than actual readings gives the impression that there were significant increases in commercial water use after 2013-14, as shown in **Figure 7**. However, it is likely that the previous consumption was just under-recorded.

**Figure 7: Annual Water Consumption for Commercial Customers from 2011-2017**



### C. CURRENT VS. PROPOSED WATER RATES

Currently, the District charges all customer classes with a standard 5/8” meter a monthly fixed charge of \$33.93, plus a uniform commodity rate of \$2.30/hcf for all water consumed. The proposed new rates follow this same rate design. **Figure 8** compares the current and proposed rates for Fiscal Year 2018/19 through 2022/23. **Figure 9** compares monthly bills for residential customers under current and proposed rates at varying levels of water consumption, and **Figure 10** provides a comparison of water bills for other regional communities.

**Figure 8. Current and Proposed Water Rates for FY 2018/19 through 2022/23**

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<i>Projected Increase in Rate Revenue</i>		8.00%	8.00%	10.00%	12.00%	12.00%
<b>% Fixed</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>
<b>% Variable</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>
<b>Fixed Service Charge</b>						
<i>Monthly Fixed Service Charge:</i>						
5/8 inch	\$33.93	\$34.15	\$36.88	\$40.57	\$45.44	\$50.89
3/4 inch	\$33.93	\$34.15	\$36.88	\$40.57	\$45.44	\$50.89
1 inch	\$81.37	\$81.93	\$88.49	\$97.34	\$109.02	\$122.10
1.5 inch	\$160.42	\$161.57	\$174.50	\$191.95	\$214.98	\$240.78
2 inch	\$255.28	\$257.14	\$277.71	\$305.48	\$342.14	\$383.20
<b>Potable Water Commodity Charges</b>						
Uniform Rate						
SFR and MFR:	\$2.30	\$2.53	\$2.74	\$3.01	\$3.37	\$3.77
Commercial	\$2.30	\$2.74	\$2.96	\$3.26	\$3.65	\$4.08
Municipal	\$2.30	\$3.03	\$3.27	\$3.60	\$4.03	\$4.52

Figure 9. Comparison of Monthly Water Bills for Single-Family Residential Customers

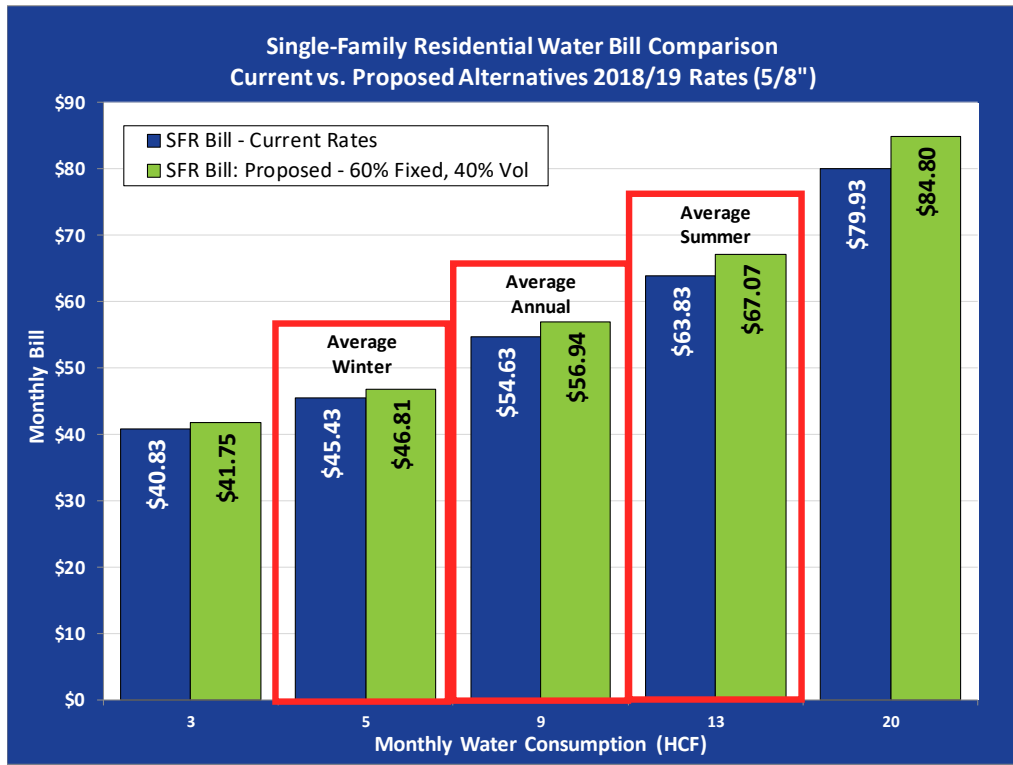
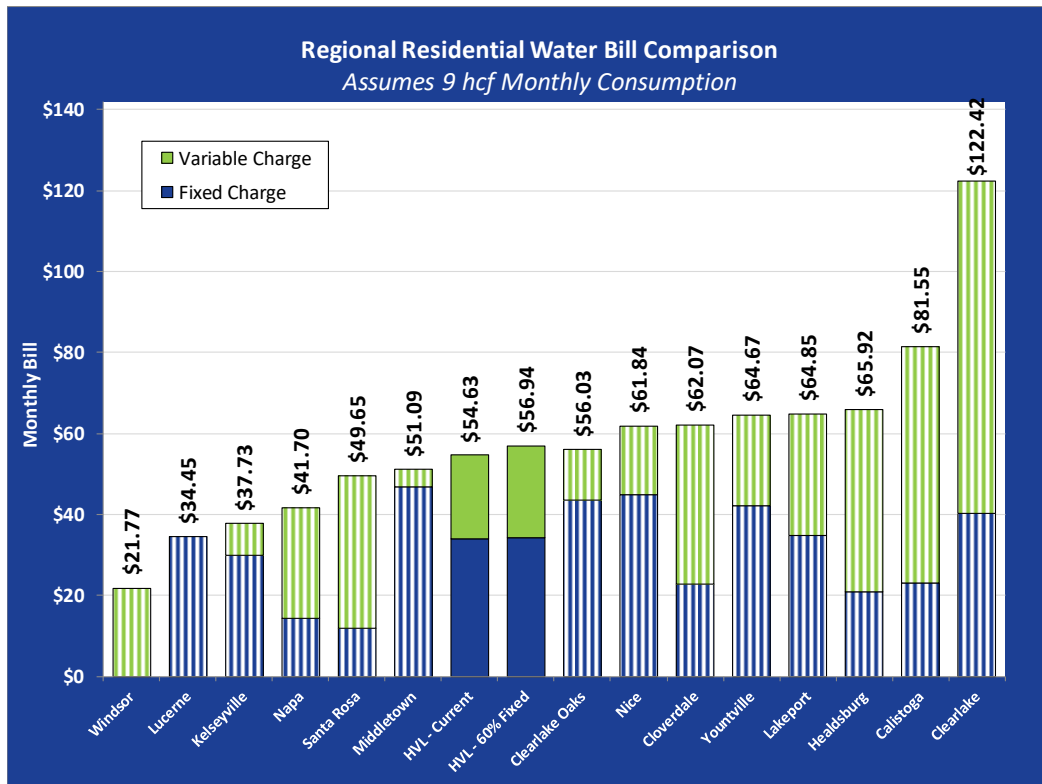


Figure 10. Regional Comparison of Monthly Water Bills for Single-Family Residential



## SECTION 3. SEWER AND RECYCLED WATER RATE STUDY

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### A. KEY SEWER AND RECYCLED WATER RATE STUDY ISSUES

Some of the specific objectives addressed in the sewer rate analysis included:

- Generating additional revenue needed to meet projected funding requirements.
- Updating the volumetric-based charge for residential customers that maintains the average winter water use basis. This is more equitable than a 100-percent flat rate because it reflects the differences in effluent generation and therefore better aligns with the cost of service.
- Updating the volumetric rate for commercial customers that relies on average winter water use for improving equity, as explained below there have been significant changes in consumption data and the cost-basis for commercial customers that NBS believes is better represented by winter water use.
- Updating recycled water rates for the one customer within the District, which is the Golf Course.

As with the water rates, the proposed sewer rates were developed based on industry standards and cost-of-service principles, and reflect input from District staff and the District Board. However, it is ultimately the District Board that decides whether to adopt and implement these recommended rates.

The proposed rate structure for residential customers continues to include a fixed monthly charge per housing equivalent unit (HEU) plus a volumetric rate based on their average winter water consumption. This volumetric charge is used to set the volumetric charge each month for the subsequent 12 months and, in this respect, acts like a fixed charge except it varies based on each customer's winter consumption. The rate structure for commercial customers is similar, with a fixed monthly charge per HEU plus a volumetric rate based on *monthly* (not average winter) water consumption.

The updated rates were set based on the net revenue requirements, number of customer accounts and housing equivalent units, water consumption, and the estimated volume and strength of the effluent. The following are the basic components of this analysis:

- **Customer classes:** Customer classes are typically determined by grouping customers with similar flow and strength characteristics in order to reflect the cost differences in serving each type of customer. The District's existing customer classes have been retained in the proposed rates developed:
  - **Residential** – Consists of single-family and multi-family residential properties; multi-family accounts are assessed fixed charges based on the number of housing equivalent units (HEUs), with single-family account representing one HEU.
  - **Commercial** – Includes all commercial, industrial and municipal users.
  - **Recycled Water** – The District has only one recycled water meter, which is at the golf course. The recycled water rate represents the additional treatment costs of recycled water, which should not be paid by sewer customers.
- **Cost Allocation Factors:** For the purpose of allocating costs to customer classes, the sewer revenue requirements were "functionalized" into five categories:
  1. Flow (volume) related costs
  2. Strength costs related to biochemical oxygen demand (BOD)
  3. Strength costs related to total suspended solids (TSS)
  4. Customer service related costs, and
  5. Recycled water related costs.



These cost allocation factors represent varying levels of the cost of service. For example, effluent with higher levels of BOD and TSS is costlier to treat and, therefore, should be allocated a greater proportion of treatment costs. Details documenting these cost allocations are shown in Appendix B.

- **Determining Revenue Requirements by Customer Class:** Based on these cost allocation factors, revenue requirements were allocated to each customer class. For example, customer costs are allocated based on number of accounts and billable units, flow-related costs are allocated based on the estimated effluent generated by each class, and strength-related costs are allocated based on estimated strength of wastewater discharged by each customer class. Once the revenue requirement for each customer class is determined, collecting these revenue requirements from each customer class is reflected in the rate design.
- **Rate Design:** The revenue requirements collected from residential customers were based on the number of housing equivalent units and, for residential customers, the average winter water consumption. Average winter water use is the best means of estimating potential flow to the wastewater treatment plant because outdoor irrigation is typically at its lowest during the winter months. Revenue requirements recovered from commercial and industrial customers through fixed charges are based on the number of HEUs; their monthly water consumption is applied to monthly water use. This is because the amount of wastewater discharged by commercial users is generally assumed to correlate to their water use.

## B. SEWER UTILITY REVENUE REQUIREMENTS

Rate increases are governed by the need to meet the operating and capital costs, debt service payments and reserves included in the revenue requirements. The District's sewer utility is summarized as follows:

- **Meeting Net Revenue Requirements:** The District's sewer utility is currently running a small structural deficit that is likely to increase to over \$400,000 per year without rate increases. The proposed rate increases would stabilize this deficit over the next five years. Projected net revenue requirements (i.e., total annual expenses less non-rate revenue) increase by approximately 30% in Fiscal Years 2018/19 through 2022/23 from about \$1,350,000 to \$1,760,000.
- **Building and Maintaining Reserve Funds:** The District should maintain sufficient reserves for the Utility. NBS recommends that the District adopt and maintain the following reserve fund targets:
  - ✓ **Operating Reserve** equal to 25% of the Utility's budgeted annual operating expenses. This reserve target is equal to a three-month (or 90-day) cash cushion for normal operations. An Operating Reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures.
  - ✓ **Capital Facilities Reserve** equal to a minimum of 3% of net depreciable capital assets (or approximately \$100,000 based on a total system asset value of approximately \$3.4 million). This reserve provides for capital repair and replacement needs.
  - ✓ **Debt Reserve** equal to the reserve requirements for the existing and planned debt, which is approximately \$32,000 annually.

Figures 11 and 12 summarize the sources and uses of funds, including net revenue requirements, and the recommended annual percent increases in total rate revenue for the next five years. This figure shows the small deficit in FY 2017/18 and, without rate increases, grows to over \$400,000 by FY 2022/23. With rate increases, the deficit turns into small but increasing surpluses in subsequent years. These surpluses are used to replenish reserves, with the intent of meeting future target reserve-fund balances.

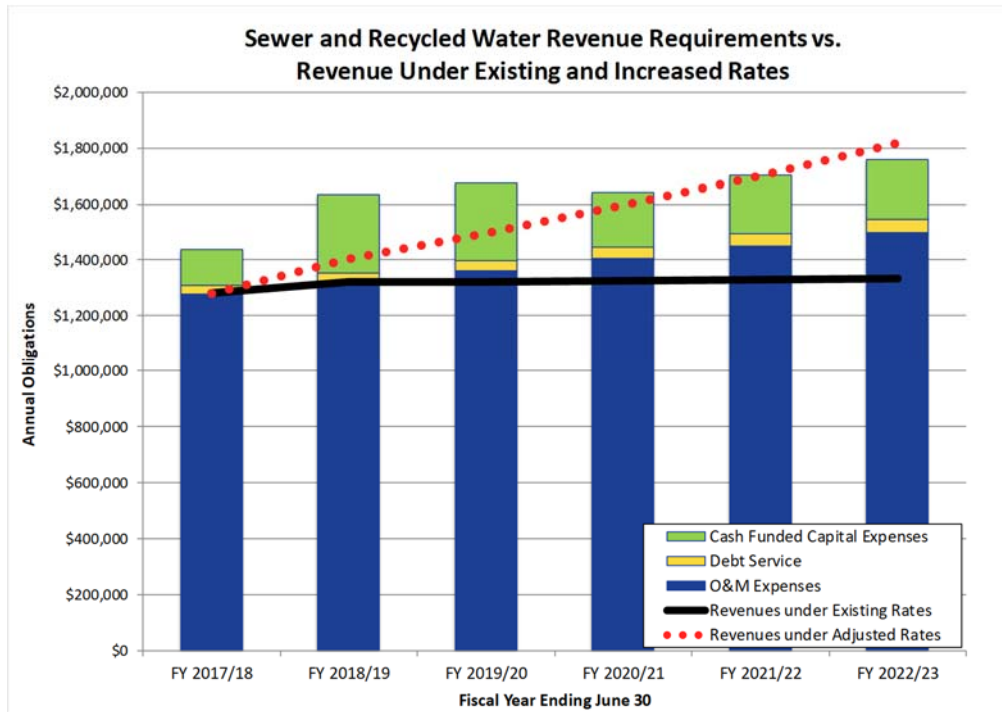
**Figure 11. Summary of Sewer Revenue Requirements**

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budgeted		Projected			
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Sources of Sewer Funds</b>						
Rate Revenue Under Current Rates - Sewer	\$ 1,180,469	\$ 1,183,420	\$ 1,186,379	\$ 1,189,345	\$ 1,192,318	\$ 1,195,299
Rate Revenue Under Current Rates - RW	90,000	125,000	125,000	125,000	125,000	125,000
Non-Rate Revenues	8,500	8,521	8,543	8,564	8,585	8,607
Interest Earnings	500	3,204	3,469	3,891	4,753	5,986
<b>Total Sources of Funds</b>	<b>\$ 1,279,469</b>	<b>\$ 1,320,145</b>	<b>\$ 1,323,390</b>	<b>\$ 1,326,800</b>	<b>\$ 1,330,656</b>	<b>\$ 1,334,892</b>
<b>Uses of Sewer Funds</b>						
Operating Expenses	\$ 1,278,383	\$ 1,320,734	\$ 1,362,781	\$ 1,406,221	\$ 1,450,635	\$ 1,496,511
Existing Debt Service	32,218	32,245	32,258	32,255	32,238	32,205
New Debt Service	-	-	3,644	7,397	11,262	15,244
Rate Funded Capital Expenses	-	-	23,353	145,307	207,656	213,886
<b>Total Use of Funds</b>	<b>\$ 1,310,601</b>	<b>\$ 1,352,979</b>	<b>\$ 1,422,035</b>	<b>\$ 1,591,180</b>	<b>\$ 1,701,791</b>	<b>\$ 1,757,846</b>
<b>Surplus (Deficiency) before Rate Increase</b>	<b>\$ (31,132)</b>	<b>\$ (32,834)</b>	<b>\$ (98,645)</b>	<b>\$ (264,380)</b>	<b>\$ (371,135)</b>	<b>\$ (422,954)</b>
Additional Revenue from Rate Increases <sup>1</sup>	-	82,839	171,906	267,654	370,568	481,170
<b>Surplus (Deficiency) after Rate Increase</b>	<b>\$ (31,132)</b>	<b>\$ 50,005</b>	<b>\$ 73,261</b>	<b>\$ 3,274</b>	<b>\$ (567)</b>	<b>\$ 58,215</b>
<b>Projected Annual Rate Revenue Increase - Sewer</b>	<b>0.00%</b>	<b>7.00%</b>	<b>7.00%</b>	<b>7.00%</b>	<b>7.00%</b>	<b>7.00%</b>
Cumulative Increases	0.00%	7.00%	14.49%	22.50%	31.08%	40.26%
<b>Projected Annual Rate Revenue Increase - RW</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
Cumulative Increases	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Net Revenue Requirement <sup>2</sup></b>	<b>\$ 1,301,601</b>	<b>\$ 1,341,254</b>	<b>\$ 1,410,024</b>	<b>\$ 1,578,725</b>	<b>\$ 1,688,453</b>	<b>\$ 1,743,253</b>

1. Assumes new rates are implemented January 1, 2019

2. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from rates.

**Figure 12. Sewer Revenue Requirements through FY 2022/23**

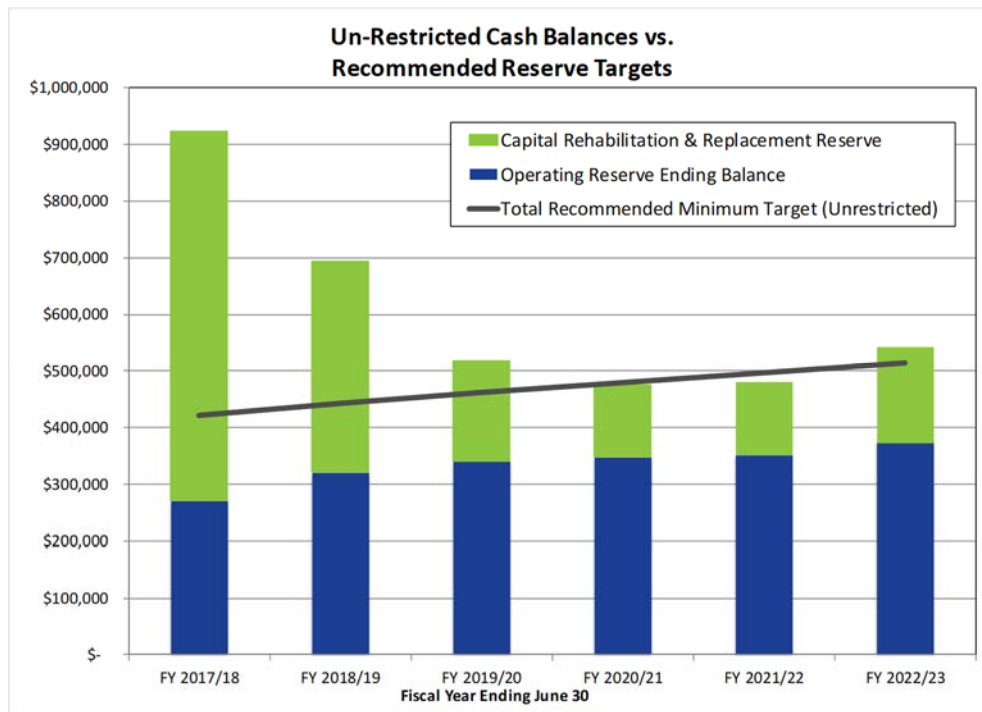


Figures 13 summarizes the projected reserve fund balances and reserve targets, for the next five years. Figure 14 indicates that, assuming the proposed rate increases are adopted, the District’s initial surplus reserves will be drawn down over the next two years, but will then keep up with the reserve fund target, which is growing slightly due to the addition of capital improvements over the next five years.

**Figure 13. Summary of Sewer Reserve Funds**

Beginning Reserve Fund Balances and Recommended Reserve Targets	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
	<b>Operating Reserve</b>					
Ending Balance	\$ 270,653	\$ 320,771	\$ 341,000	\$ 348,269	\$ 351,891	\$ 374,000
<i>Recommended Minimum Target</i>	<i>320,000</i>	<i>330,000</i>	<i>341,000</i>	<i>352,000</i>	<i>363,000</i>	<i>374,000</i>
<b>Capital Facilities Reserve</b>						
Ending Balance	\$ 652,596	\$ 372,951	\$ 177,837	\$ 127,000	\$ 127,000	\$ 167,492
<i>Recommended Minimum Target</i>	<i>102,000</i>	<i>112,000</i>	<i>121,000</i>	<i>127,000</i>	<i>134,000</i>	<i>141,000</i>
<b>Debt Reserve</b>						
Ending Balance	\$ 32,345	\$ 32,345	\$ 32,345	\$ 32,345	\$ 32,345	\$ 32,345
<i>Recommended Minimum Target</i>	<i>32,345</i>	<i>32,345</i>	<i>32,345</i>	<i>32,345</i>	<i>32,345</i>	<i>32,345</i>
<b>Total Ending Balance</b>	<b>\$ 955,594</b>	<b>\$ 726,067</b>	<b>\$ 551,182</b>	<b>\$ 507,614</b>	<b>\$ 511,236</b>	<b>\$ 573,837</b>
<i>Total Recommended Minimum Target</i>	<i>\$ 454,345</i>	<i>\$ 474,345</i>	<i>\$ 494,345</i>	<i>\$ 511,345</i>	<i>\$ 529,345</i>	<i>\$ 547,345</i>
<i>Total Recommended Minimum Target (Unrestricted)</i>	<i>\$ 422,000</i>	<i>\$ 442,000</i>	<i>\$ 462,000</i>	<i>\$ 479,000</i>	<i>\$ 497,000</i>	<i>\$ 515,000</i>

**Figure 14. Sewer Reserve Funds Through FY 2022/23**



A summary of the sewer utility’s proposed 10-year financial plan is included in Appendix B – Sewer Rate Study Summary Tables. These tables include revenue requirements, reserve funds, revenue source and proposed rate increases for the 10-year period.

**C. SEWER CUSTOMER CHARACTERISTICS**

The five factors used in allocating costs as a part of the sewer cost-of-service analysis are effluent (flow), BOD, TSS, customer costs, and recycled water costs. Water consumption data from January 2017 through December 2017 was used to estimate the flows to the District’s wastewater treatment plant. Residential bills reflect average winter consumption because it is correlated to the amount of residential effluent that goes to the treatment plant.

For residential customers, the average winter water consumption used to calculate their bills is assumed to include four billing periods; December 2016 - March 2017 were considered the “winter” months because consumption is lowest in these months. Based on water consumption records summarized in **Figure 15**, residential customers account for approximately 95.6% of effluent at the plant (i.e., single-family = 93% and multi-family = 2.6%). Commercial customers account for the remaining 4.4% of the flow.

**Figure 15. Summary of Estimated Flow to Treatment Plant**

Development of the FLOW Allocation Factor						
Customer Class	Number of HEUs <sup>1</sup>	Annual Volume (hcf)	Average Winter Monthly Consumption <sup>3</sup> (hcf)	Annual Winter Average Based Volume (hcf)	Adjusted Annual Volume (hcf)	Percentage of Adjusted Volume
Single Family Residential	1,444	150,261	7,342	88,109	124,553	93.0%
Multi-Family Residential	54	3,615	201	2,417	3,416	2.6%
Commercial	35	10,224	347	4,158	5,878	4.4%
Municipal	1	63	5	61	87	0.1%
<b>Total <sup>2</sup></b>	<b>1,534</b>	<b>164,163</b>	<b>7,895</b>	<b>94,745</b>	<b>133,934</b>	<b>100.0%</b>
					133,934	Flow (hcf/yr.)
					1.41	Flow Adj. Factor

1. Consumption and Meters from source files: *NBS 2018 - #17\_Manipulated Sewer Billing Data.xlsx* (data combined and summarized in pivot tables).

2. Recycled Water excluded from flow allocation factor. One customer only in the District, volumetric rate only.

3. Includes months of December 2016 through March 2017.

**Customer Class Effluent Strengths** – Effluent strength factors for individual customer classes<sup>5</sup> are shown in **Figure 16** and described below.

**Figure 16. Summary of Annual Flow and Strength Characteristics by Customer Class**

Development of the STRENGTH Allocation Factor									
Customer Class	Adjusted Annual Flow (hcf)	Biochemical Oxygen Demand (BOD)				Total Suspended Solids (TSS)			
		Average Strength Factor (mg/l) <sup>2</sup>	Calculated BOD (lbs./yr.)	Adjusted BOD (lbs./yr.)	Percent of Total	Average Strength Factor (mg/l) <sup>2</sup>	Calculated TSS (lbs./yr.)	Adjusted TSS (lbs./yr.)	Percent of Total
Single Family Residential	124,553	200	155,401	181,420	93.0%	180	139,861	150,306	93.0%
Multi Family Residential	3,416	200	4,262	4,976	2.6%	180	3,836	4,123	2.6%
Commercial <sup>1</sup>	5,878	200	7,334	8,562	4.4%	180	6,601	7,094	4.4%
Municipal	87	200	108	126	0.1%	180	97	105	0.1%
<b>Total</b>	<b>133,934</b>		<b>167,105</b>	<b>195,084</b>	<b>100%</b>		<b>150,395</b>	<b>161,627</b>	<b>100%</b>
		<i>Target, from WWTP Data</i>		<i>195,084 BOD (lbs./yr.)</i>				<i>161,627 TSS (lbs./yr.)</i>	
				<i>1.17 BOD Adj. Factor</i>				<i>1.07 TSS Adj. Factor</i>	

1. Commercial was previously billed on monthly water use, now if billed on average winter; as a result it is more typical of indoor/residential strengths.

2. Typical strength factors for BOD and TSS are derived from the State Water Resources Control Board Revenue Program Guidelines, Appendix G.

- **Residential** customers, including single-family, multi-family and mobile homes, have BOD and TSS strength factors of 200 mg/l, which is within the normal range for residential users.
- **Commercial** customers can have individual strength factors that are higher or lower than residential, depending on the particular type of commercial uses. In the District’s case, NBS and the District believe that commercial effluent is, on average, consistent with residential strengths. Therefore, strength factors assigned to commercial class customers are the same as residential customers.

<sup>5</sup> Strength factors for each customer class were derived from the State Water Resources Control Board Revenue Program Guidelines, Appendix G, page G-21 “Commercial User Strength Characteristics.”

**Figure 17** compares the total number of accounts and billing units (depending on how customers are billed) by customer class. **Figure 18** then summarizes the total rate revenue requirements by customer class resulting from the cost-of-service cost allocation components previously shown in Figure 12 (Revenue Requirements), Figure 15 (Flow and Strength Characteristics), and Figure 16 (Customer Costs).

**Figure 17. Number of Accounts and Billing Units by Customer Class**

Development of the CUSTOMER Allocation Factor					
Customer Class	Number of Accounts	Percentage of Accounts	Number of HEUs	Percentage of Assigned HEUs	Average HEUs per Account
Single Family Residential	1,444	97.0%	1,444	94.2%	1.00
Multi-Family Residential	27	1.8%	54	3.5%	2.00
Commercial & Industrial	15	1.0%	35	2.3%	2.30
Municipal	1	0.1%	1	0.1%	1.00
Recycled Irrigation	1	0.1%	0	0.0%	0.00
<b>Total</b>	<b>1,488</b>	<b>100.0%</b>	<b>1,534</b>	<b>100.0%</b>	<b>1.03</b>

**Figure 18. Summary of Rate Revenue Requirements by Customer Class**

Allocation of FY 2018/19 Revenue Requirements by Customer Class							
Customer Class	Cost Classification Components					Cost-of-Service Net Revenue Req't.	% of COS Net Revenue Req't.
	Volume	Treatment		Customer Related	Recycled Water		
		BOD	TSS				
<b>Net Revenue Requirements</b> <sup>1</sup>	<b>\$ 550,641</b>	<b>\$ 282,746</b>	<b>\$ 282,746</b>	<b>\$ 146,794</b>	<b>\$ 128,332</b>	<b>\$ 1,391,260</b>	<b>--</b>
	39.6%	20.3%	20.3%	10.6%	9.2%	100.0%	
SFR and MFR	\$ 526,117	\$270,154	\$270,154	\$145,117	\$ -	<b>\$1,211,542</b>	87.1%
Commercial	24,167	12,410	12,410	1,480	-	<b>50,466</b>	3.6%
Municipal	356	183	183	99	-	<b>821</b>	0.1%
Recycled Irrigation	-	-	-	99	128,332	<b>128,431</b>	9.2%
<b>Total</b>	<b>\$ 550,641</b>	<b>\$ 282,746</b>	<b>\$ 282,746</b>	<b>\$ 146,794</b>	<b>\$ 128,332</b>	<b>\$1,391,260</b>	<b>100%</b>

1. Revenue requirement for each customer class is determined by multiplying the revenue requirement from each cost classification by the allocation factors for each customer class.

#### D. CURRENT VS. PROPOSED SEWER RATES

Currently, all customers pay the same fixed monthly charge based on their number of household equivalent units (HEUs). Both residential and commercial customers also pay a volumetric monthly rate, but the uniform volumetric rate for residential customers is applied to average winter water use, while commercial customers pay a slightly higher volumetric rate that is applied to monthly water use.

**Changes in Residential vs. Commercial Sewer Rates** – The proposed rates retain the same customer classes, which combine single- and multi-family residential customers, and combine commercial with municipal customers. However, as previously noted, water consumption for commercial customers is now significantly higher than previously thought due to meter misreads that have now been corrected. That new consumption data has increased the costs allocated to commercial customers and, as a result, NBS is recommending realigning commercial fixed and volumetric rates to account for these higher costs as follows: (1) higher commercial costs are largely allocated to their fixed charges, and (2) the volumetric rate for commercial was set equal to the residential volumetric rate.

The rationale for this approach is that since commercial customers tend to be larger water meters and have higher consumption, but on average have the same strength as residential customers, it makes more sense to have the same volumetric rates as residential customers but a higher fixed charge (which reflects capacity-related costs). Therefore, while all customers will continue to pay a volumetric rate, this rate will now be the same for both residential and commercial customers. In contrast, the fixed monthly charge, which is currently the same for all customers, will now be higher for commercial customers, who will pay a fixed rate of \$91.24/HEU vs. the proposed residential fixed charge of \$52.57/HEU per month.

Figure 19 shows current and proposed sewer rates for FY 2018/19 through FY 2022/23. Figure 20 compares the average monthly sewer bills for residential customers under current and proposed rates. Figure 21 compares commercial bills under current vs. proposed rates.

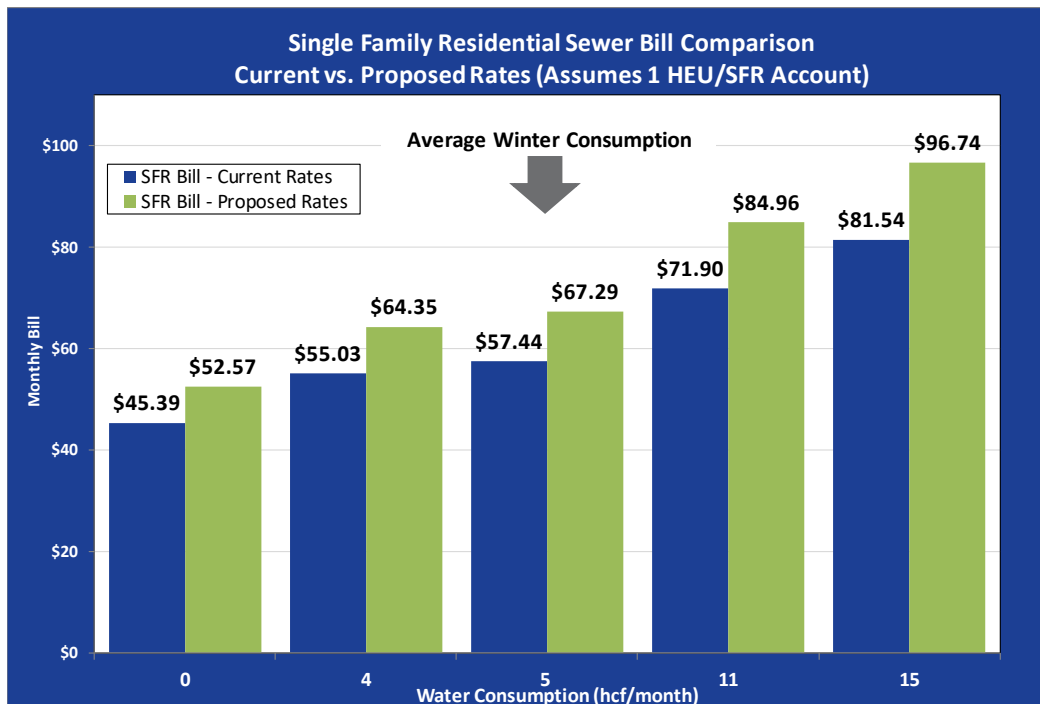
**Figure 19. Current vs. Proposed Sewer Rates**

Sewer Rate Schedule	Current Rates <sup>1</sup>	Proposed Sewer Rates				
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<i>% Increase in Annual Rate Revenue:</i>		7.00%	7.00%	7.00%	7.00%	7.00%
<b>Fixed Service Charge per HEU</b>						
Residential	\$45.39	\$52.57	\$56.25	\$60.19	\$64.40	\$68.91
Commercial and Municipal	\$45.39	\$91.24	\$97.63	\$104.47	\$111.78	\$119.60
<b>Volumetric Charge (\$/hcf)</b>						
Residential (Applied to <u>Avg. Winter Water Use</u> )	\$2.41	\$2.94	\$3.15	\$3.37	\$3.61	\$3.86
Commercial and Municipal (Applied to <u>Avg. Winter Water Use</u> ) <sup>2</sup>	\$2.62	\$2.94	\$3.15	\$3.37	\$3.60	\$3.85

1. Sewer customers are charged on the basis of their number of assigned Housing Equivalent Units (HEUs).

2. Commercial and Municipal volumetric charges, currently based on monthly water use and now will be based on average winter water use.

**Figure 20. Residential Sewer Bill Comparison – Current vs. Proposed Rates**



**Figure 21. Commercial Sewer Bill Comparison – Current vs. Proposed Rates**

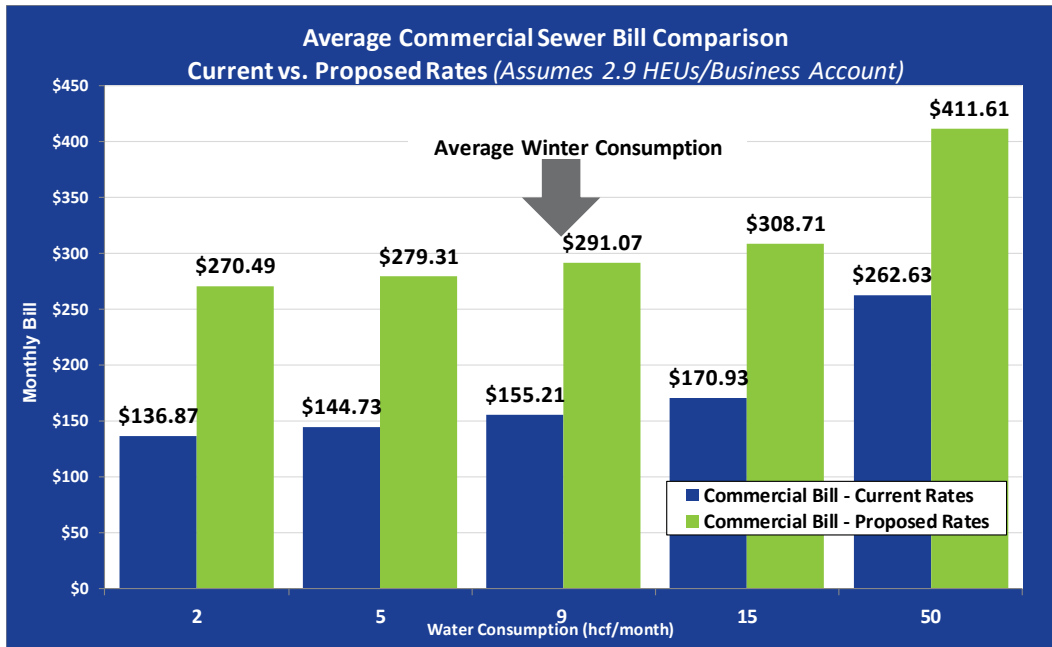
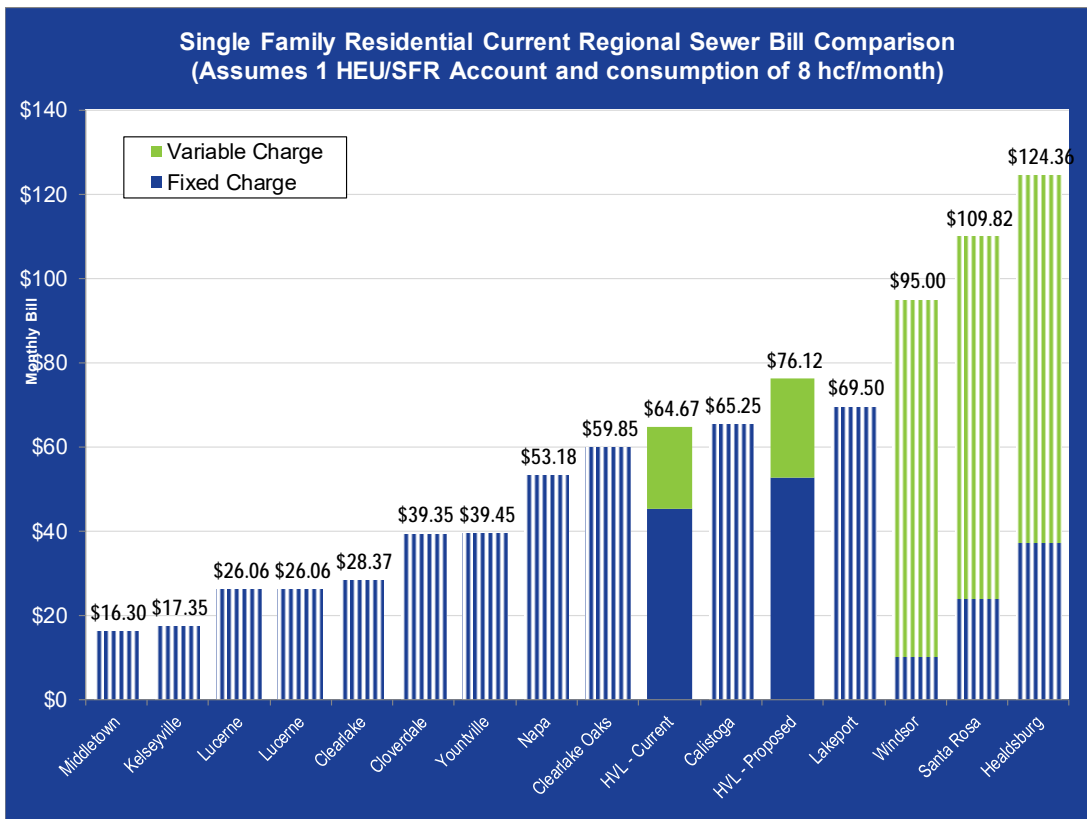


Figure 22 provides a comparison of monthly sewer bills for other communities in the region.

**Figure 22. Regional Sewer Bill Comparison – Single Family Residential**





**E. CURRENT VS. PROPOSED RECYCLED WATER RATES.**

The District has maintained one recycled water customer and has not evaluated the rate structure since its inception. The current rate is \$291.75 per acre foot. NBS considered the sewer utility’s annual expenses and how those expenses might be allocated to the recycled water customer. In light of the fact that the one recycled water customer, the golf course, is owned by the homeowners association and the District, it essentially is an internal transfer of funds within the sewer utility to cover recycled water costs.

**Basis for Setting Recycled Water Rate** – There is no established industry standard for setting recycled water rates, and many agencies arbitrarily set rates at some percent below potable volumetric rates. There is also not a clear allocation of benefits accruing from a recycled water program: are there benefits to using recycled water instead of discharging effluent from the treatment plant? Do the lower water quality standards for recycled water make it less valuable than potable water? Do the additional constituents in recycled water translate into higher costs for recycled water irrigation systems? The answers to these questions is generally “yes”.

**Proposed Recycled Water Rate** – In view of these factors, the current recycled water rate is, in NBS’ opinion, a reasonable and fair rate. However, we did calculate an updated rate using the annual recycled water consumption and a reasonable allocation of the annual revenue requirement. A recommended volumetric rate is \$292.31 per acre foot. **Figure 23** summarizes the calculation of the recycled water charge.

**Figure 23. Proposed Recycled Water Rates**

Customer Class	Total Annual RW Use <sup>1</sup>	Annual Rev. Req't			Monthly Fixed Charge	Volumetric Charge
		Total	Fixed	Volumetric		
Recycled Irrigation (hcf)	191,386					
Recycled Irrigation (Acre Ft)	439	\$128,431	\$0	\$128,431	\$0.00	\$0.67/hcf \$292.31/AF

1. Actual 2017 consumption



## SECTION 4. RECOMMENDATIONS AND NEXT STEPS

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### CONSULTANT RECOMMENDATIONS

A number of factors have impacted the District's water and sewer rates in the last several years. The drought and its mandated conservation efforts, the corresponding lower water sales, and the correction of some commercial water reading problems have been notable. In light of these factors, NBS has reevaluated water, sewer and recycled water rates and made adjustments that, in our opinion, best represent the overall rate objectives of the District in a fair, equitable, and defensible manner. NBS

The following are NBS' recommendations for the District following careful review of this report:

- **Approve and Accept This Study Report:** NBS recommends the District Board formally approve and adopt this report, its recommendations, and accompanying appendices. This will document the rate study analyses and the basis for recommended rates.
- **Complete a Review by a Qualified Attorney:** This rate study outlines proposed new rates. Because NBS are not attorneys, we do not provide legal opinions and, therefore, must defer to the review by legal counsel with respect to compliance with Proposition 218 and related State laws, as well as legal assistance developing acceptable language for new resolutions to implement these rates.
- **Implement Recommended Levels of Rate Increases and Proposed Rates:** Based on the analysis presented in this report, the District Board should implement the proposed rates recommended in this report (see Figures 8, 19, and 23) for the next five years. These rate adjustments are structured based on industry standards and are necessary to ensure the following objectives are met:
  - Water rates that promote water conservation and reflect the cost of providing water service to each customer class.
  - Sewer rates that more appropriately reflect the cost of providing sewer service to each customer class; in particular, commercial fixed charges based on better consumption data to improve equity between customers in the sewer utility.
  - Maintaining the financial health of the District's water and sewer utilities.
  - Recycled water rates that can reasonably be considered fair and equitable to both the golf course and the District.
- **Adopt Reserve Fund Targets:** NBS recommends the District Board adopt the proposed reserve fund targets described in Sections 2 and 3 of this report for the water and sewer utilities. The District should periodically evaluate reserve fund levels and make it a long-term goal to achieve and maintain these levels for the Operating, Capital, and Debt Reserves.

### NEXT STEPS

- **Annually Review Rates and Revenue** – Any time an Agency adopts new utility rates or rate structures, those new rates should be closely monitored over the next several years to ensure the revenue generated is sufficient to meet the annual revenue requirements. Changing economic, water consumption patterns, new regulatory mandates, and unplanned capital improvements all underscore the need for this annual review.

*Note: The attached Technical Appendices provide more detailed information on the analysis of the water and sewer revenue requirements, cost of service and rate design analyses that have been summarized in this report.*

## **PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS**

In preparing this report and the recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters, number of customer accounts, billing records, and other conditions and events that may occur in the future. This information and assumptions, including the District's budgets and customer account information provided by District staff, are sources we believe to be reliable, although NBS has not independently verified this data.

While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

**APPENDIX A – WATER RATE ANALYSIS**

## APPENDIX B – SEWER RATE ANALYSIS



# Hidden Valley Lake Community Services District

19400 Hartmann Road  
Hidden Valley Lake, CA 95007  
707.987.9201  
707.987.3237 fax  
www.hvlcsd.org

## Finance & Audit Committee

### Mission Statement & Charter

Effective: March 21, 2018

Revised: April 2, 2018

**Status: Standing Committee**

**Meeting Times: Varies, as required**

**Staff Contact: Board Secretary**

**Mission Statement:**

#### **Finance**

To provide an oversight function and an avenue of communication between District finance staff and the Board of Directors regarding all District financial matters.

To review and recommend policies and procedures covering District capital structure, debt financing, cash management, investments, capital assets, reserve position, and financial risk management.

To submit an annual capital and operating budget to the Board of Directors for consideration and approval.

To review and recommend policies and procedures covering directors', officers', and employee expense accounts, perquisites, and use of District assets.

To monitor and recommend changes to the District Ethics Policy covering all Directors and District personnel.

#### **Audit**

To provide an open avenue of communication among the District finance staff, auditors, and Board of Directors.

To recommend the engagement of outside independent auditors and internal auditors.

To review external audit reports and periodic financial statements.

To review legal, regulatory and other matters that may have a material effect on the District's financial position, compliance policies and/or programs and to recommend actions concerning these matters to the full Board.



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## Charter

### Purpose and Authority

The Finance and Audit Committee (Committee) is established to assist the Board of Directors in fulfilling its oversight responsibilities in all areas of District financial responsibilities including capital structure, debt financing, capital expenditures, cash management, banking activities and relationships, investments, annual budgets, integrity of the District's financial reporting process, system of internal controls over financial reporting, audit process, process for monitoring compliance with financially-related laws and regulations, and the District's Ethics Policy. The Committee provides an open avenue of communication between financial management, internal auditors (if any), external auditors and the Board.

The Committee, in its discretion, may submit any financial matter, along with its recommendation with respect thereto, to the full Board of Directors for consideration and approval.

In its discretion and at any time, the full Board of Directors may direct the Committee to bring certain matters delegated to the Committee to the full Board for consideration and approval or delegate any new power or duty.

### Composition

The Committee will consist of at least two members of the Board of Directors, General Manager and Full Charge Bookkeeper. Committee members are appointed by and serve at the discretion of the President of the Board of Directors.

### Meetings

The Committee will meet as required, with special meetings as the Committee Chair or President of the Board of Directors may direct. The Committee may invite members of management, auditors or others to attend meetings and provide pertinent information. The Committee meetings are open to the public and the public may comment on any specific item discussed by the Committee.

### Responsibilities

The Committee will formulate policy, review with District staff and recommend for approval existing or proposed policies and actions to the full Board of Directors, any and all strategies, plans, policies and actions related to District finance. The matters within the scope of the Committee's authority will include but are not limited to the following:



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## Financial

1. Recommending policies and actions concerning District capital structure, debt financings, capital expenditures, reserve balances and requirements, investments, and cash management, including the establishment and maintenance of bank, investment and brokerage accounts.
2. Reviewing an annual capital and operating budget and providing feedback to staff.
3. Considering and recommending methods of acquiring or holding interests in District property, fixed assets or contributed capital. Inquiry will be sought into any unusual methods of acquiring title to or holding such property.

## External Audit

1. Reviewing the annual audited financial statements with the external auditors and management, including inquiring about major issues regarding accounting and auditing principles and practices, and the adequacy of internal controls that could significantly affect the District's financial statements. All external audit reports shall be presented to the full Board of Directors.
2. Reviewing critical accounting policies and any major changes to accounting policies.
3. Reviewing with management, and the external auditors if necessary, any District newsletter or press release regarding District financial information before such materials are filed.
4. Reviewing with management and/or the external auditors the effect of regulatory and accounting initiatives, as well as reviewing and approving any off-balance sheet structures on the District's financial statements.
5. Reviewing with management and the external auditors significant financial reporting issues and judgments made in connection with the District's financial statements, including the effect of alternative GAAP methods on the District's financial statements.

## Internal Controls

1. Considering and reviewing with management and the external auditors the effectiveness of the District's internal controls over annual and interim financial reporting, including information technology security and control. These controls will provide reasonable assurance of the integrity of the financial information and assurance that the District's reported financial results are presented fairly in conformity with GAAP.



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2. Understanding the scope of the external auditors' review of internal controls over financial reporting and obtaining reports on significant findings and recommendations together with management's responses.

3. Check Signing: After review and approval of the transactions by the General Manager and Full Charge Bookkeeper an authorized check signer will sign checks each Friday of the month. Preferably in the morning to allow time for processing and mailing same day.

All of the Board of Directors are authorized to sign checks. All checks require two signatures. The General Manager and Full Charge Bookkeeper are also authorized check signers, but it is preferred to have the Directors assigned to the Finance Committee sign.

#### 4. Bank Reconciliation:

The District currently has three accounts-

- a) West America Bank- Checking
- b) West America Bank- Money Market
- c) LAIF- Investment

Bank statements are reconciled by the Full Charge Bookkeeper the first week of each month in preparation for the board meeting.

A copy of each bank statement will accompany the "pooled cash" report submitted in the board packet and the "detailed account listing" report from Incode's financial module. The statements will be available the second or third Friday of each month for review and sign off from a Director on the Finance Committee.

#### **Internal Audit**

1. Reviewing significant internal audit findings reported during the period and their respective impact on internal controls, the control environment and the overall effectiveness and efficiency of the District's operations.

#### **External Audit**

1. Reviewing the external auditors' proposed audit scope and approach, including coordination of external audit effort with staff.

2. Recommending to the full Board the appointment or discharge of external auditors.

3. Reviewing the experience and qualifications of the primary partners and staff on the external audit team and the quality control procedures of the firm.





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4. Reviewing the external auditors' Management Letter, recommendations, and management's response.
5. With direction from the Board, reviewing and approving the annual budget for all audit and non-audit services from the external auditor, and approving in advance any other fees for non-audit services provided by the external auditor.
6. Reviewing and confirming the independence of the external auditors, including obtaining statements from the external auditor regarding its independence. Discussing relationships between the external auditors and the District with the auditors and considering whether the provision of non-audit services is compatible with maintaining the external auditor's independence.
7. Reviewing and concurring with the General Manager's hiring as an employee or engagement as a contractor any employee of an external auditor who was engaged on the District account in the most recent two years.

## **Ethics Policy**

1. District staff will monitor compliance with the District Ethics Policy to which all Directors and employees will attest. At least annually, the Committee will receive a report from District staff indicating compliance with the District Ethics Policy.

## **Compliance**

1. Reviewing the effectiveness of the accounting system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
2. Reviewing with management and the external auditors any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the District's financial statements, accounting policies or internal controls, and making recommendations concerning these matters to the full Board.
3. Reviewing the process for communicating the District's Ethics Policy with District staff, for reporting incidents and for monitoring compliance annually.
4. Obtaining regular updates from management and the District's legal counsel regarding legal matters which may have a material impact on the financial statements, including any related-party transactions, and any material reports or inquiries received from regulators or governmental agencies.



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5. Conducting or authorizing investigations into any matters within the Committee's charter. With the full Board's concurrence, the Committee is empowered to: (i) retain outside counsel, accountants, or others to advise or assist the Committee in the conduct of an investigation; (ii) seek any information it requires from external parties or the General Manager; (iii) meet with management, external auditors, or outside counsel, as necessary; and (iv) meet with the District's financial advisors, if any.

## **Reporting**

The Committee's reporting responsibilities will include oral and written reports to the Board of Directors regarding Committee activities, issues and related recommendations and actions. At each regularly scheduled meeting of the Board of Directors, the Chair of the Committee will provide the Board of Directors with a report of the Committee's activities and proceedings.

## **Committee Charter**

The Committee also will perform other activities related to this Charter, including: (i) a review and assessment of the adequacy of the charter at least annually and request Board approval of any proposed changes; (ii) annual confirmation that the responsibilities outlined in this charter have been carried out; and (iii) ensuring that this charter is posted on the District's website.

<- Back (<http://stockton.granicus.com/boards/w/cdf8ef02a7737626>)

# WATER ADVISORY GROUP



BOARD DETAILS

MEMBER ROSTER



**0 CURRENT VACANCIES**  
3 TERMS EXPIRED

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## Size

7 Members

## Term Length

4 Years

## Term Limit

2 Terms

## Description

To advise the Council Water Committee on current and future water issues impacting water, wastewater, and storm water utilities for the City of Stockton, including the review of the Department of Municipal Utilities monthly Operations and Maintenance Report.

## Minimum Qualification/Requirements

Members must reside in one of the Stockton Municipal Utilities' three utility service areas.  
After appointment: FPPC Statement of Economic Interests (Form 700)

## Required Membership Composition:

Each member's term coincides with the term of the Council Member or Mayor that nominated the member.

## Meeting Date/Location

Twice Quarterly  
First Wednesday of the first two months in each quarter

## Remuneration:

None

## SEI Officer

CITIZENS' WATER ADVISORY COMMITTEE  
RULES AND REGULATIONS  
NOVEMBER 2003 (updated 2005, 2012 and 2014)

**Functions of the Citizens' Water Advisory Committee (CWAC).**

The CWAC shall provide counsel and recommendations to the Water department on the budget, departmental work plans, operational needs, strategic planning, long-range capital improvements, financial planning and intergovernmental relations. This shall include but not be limited to the following:

- (a) Act as an advisory body on water capital improvements program planning and rate structure formulation to city government;
- (b) Annually review the proposed water system operating budget and capital improvement program, and recommend to the City Council an annual and bi-annual capital budget;
- (c) Annually review the water revenue requirements of the water system and recommend to the City Council such rate adjustments as may be required; promote the needs of the customers of the Aurora water system consistent with adopted City Council policies, and ensure that the water system delivers safe, adequate, and quality water to all of its customers;
- (d) Provide information and opinions to the City Council as may be required by the City Council relative to water resource development needs;
- (e) Quarterly review and report on activities, suggestions or concerns the committee may deem necessary to City Council through the appropriate policy committee.

**Membership.**

(a) The CWAC shall consist of a minimum of seven (7) and maximum of nine (9) members who shall be registered electors as defined in the Charter, appointed by the City Council, who have the necessary qualifications to review complex engineering and utility financing issues. One member shall represent a commercial rate payer.

**Code of Ethics.**

- (a) Members of the CWAC shall maintain ethical standards in the performance of their duties and responsibilities;
- (b) No member shall use any information revealed in the performance of his or her duties for making a private pro fit or gaining personal benefit or benefit for others;
- (c) No member shall accept a gift or service of substantial value or economic value as defined in Section 24-18-104 C.R.S. The following are examples of items which shall not be considered gifts of substantial value for the purposes of this section: an occasional

non-pecuniary gift, insignificant in value; items of perishable non-permanent value, including meals, tickets to sporting, recreational, educational, or cultural events;

(d) No member shall appear on behalf of private interests before the CWAC. Members shall not represent private interests in any action or proceeding against the interests of the City in any litigation in which the City is a party;

(e) The chairperson shall be the spokesperson for the CWAC. Members shall refrain from making public statements concerning the CWAC without approval from the City Manager's office;

(f) The burden is on each member to abide by the above terms and to acknowledge any conflict of interest to the committee.

### **Terms.**

Terms of appointment for all members shall be three years.

### **Conduct of Business.**

All business conducted by the CWAC shall comply with the Open Meetings Law, C.R.S. section 24-6-401, *et seq.*; as amended. All proceedings of the CWAC shall be public.

### **Record of proceedings.**

The CWAC shall keep an accurate record of all proceedings.

### **Chairperson and vice-chairperson.**

(a) At the first meeting following January 1, the CWAC shall elect a chairperson and vice-chairperson;

(b) Nominations shall be from the floor. Those elected shall assume office immediately. The tenure for each position shall be one (1) year;

(c) The chairperson shall preside at all meetings;

(d) A majority of the members appointed and serving on the CWAC shall constitute a quorum. A quorum is required for any item to be put to a vote.

### **Removal of officers/members.**

(a) Any officer or member may be removed for failure to abide by CWAC's Rules and Regulations, Code of Ethics, or for failure to attend meetings;

(b) All members shall be subject to removal by City Council at its pleasure, without cause, pursuant to section 9-1 of the City Charter.

**Support.**

The Water department shall provide such records, information, supplies, clerical help and budget data as is requested by the chairperson of the CWAC, provided that such request shall be reasonable both as to its extent and content so as not to place an undue burden upon the administration of the City. Clerical and technical support to the committee will be provided by the Water department.

**Reports.**

- a) The CWAC shall make at least one (1) annual report to the City Council. The committee shall make such other reports to the City Council as may be requested of it from time to time by a majority of the City Council;
- b) The CWAC shall make at least four (4) quarterly reports to the appropriate policy committee. The committee shall make such other reports to the policy committee as may be requested of it from time to time by the policy committee;
- c) All reports or recommendations made by the CWAC shall be advisory only to the City Council and shall be presented by the chairperson of the committee and shall consist of a majority report. A minority report may also be submitted by any member.