

**VALLEY SPRINGS PUBLIC UTILITY  
DISTRICT**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

**JUNE 30, 2017 AND 2016**



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**CROCE, SANGUINETTI, & VANDER VEEN**

CERTIFIED PUBLIC ACCOUNTANTS

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CROCE, SANGUINETTI, & VANDER VEEN<sup>INC.</sup>

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

To the Board of Directors  
**Valley Springs Public Utility District**  
Valley Springs, California

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of **Valley Springs Public Utility District** (the District) as of and for the year ended June 30, 2017, 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.

### Auditors' 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. 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 auditors' 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.

## **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, each major fund, and the aggregate remaining fund information of **Valley Springs Public Utility District** as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 30 through 31 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information - summaries of operating expenses for the years ended June 30, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information - summaries of operating expenses is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Report on Summarized Comparative Information*

We have previously audited the District's June 30, 2016 basic financial statements, and we expressed an unmodified audit opinion on the respective basic financial statements in our report dated January 31, 2017. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Croce, Sanguinetti, & Vander Veen, Inc.*

CROCE, SANGUINETTI, & VANDER VEEN, INC.  
Certified Public Accountants  
Stockton, California  
January 31, 2018

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Statements of Net Position**

June 30, 2017

(with comparative totals for June 30, 2016)

**Assets and Deferred Outflows of Resources**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
<b>Current assets</b>				
Cash and investments	\$ 561,731	\$ 1,082,517	\$ 1,644,248	\$ 1,485,600
Accounts receivable	41,441	19,416	60,857	47,311
Interest receivable	231	230	461	461
Note receivable	2,000	2,000	4,000	4,000
Prepaid expenses	<u>7,773</u>	<u>7,773</u>	<u>15,546</u>	<u>14,115</u>
Total current assets	<u>613,176</u>	<u>1,111,936</u>	<u>1,725,112</u>	<u>1,551,487</u>
<b>Noncurrent assets</b>				
Restricted assets - cash	5,475	5,475	10,950	10,550
Capital assets, net of accumulated depreciation	789,335	1,431,193	2,220,528	2,395,379
Note receivable	<u>8,000</u>	<u>8,000</u>	<u>16,000</u>	<u>20,000</u>
Total noncurrent assets	<u>802,810</u>	<u>1,444,668</u>	<u>2,247,478</u>	<u>2,425,929</u>
<b>Deferred outflows of resources</b>				
Deferred outflows related to pension	<u>21,121</u>	<u>21,122</u>	<u>42,243</u>	<u>15,738</u>
Total deferred outflows	<u>21,121</u>	<u>21,122</u>	<u>42,243</u>	<u>15,738</u>
Total assets and deferred outflows of resources	<u>\$ 1,437,107</u>	<u>\$ 2,577,726</u>	<u>\$ 4,014,833</u>	<u>\$ 3,993,154</u>

**Liabilities, Deferred Inflows of Resources and Net Position**

<b>Current liabilities</b>				
Accounts payable	\$ 20,981	\$ 9,128	\$ 30,109	\$ 29,379
Accrued interest	-	8,903	8,903	9,053
Accrued expenses	8,810	2,937	11,747	12,231
Current maturities of long-term debt	<u>-</u>	<u>21,000</u>	<u>21,000</u>	<u>20,000</u>
Total current liabilities	<u>29,791</u>	<u>41,968</u>	<u>71,759</u>	<u>70,663</u>
<b>Noncurrent liabilities</b>				
Customer deposits	5,475	5,475	10,950	10,550
Net pension liability	100,094	100,094	200,188	146,848
Long-term debt	<u>-</u>	<u>1,166,000</u>	<u>1,166,000</u>	<u>1,187,000</u>
Total noncurrent liabilities	<u>105,569</u>	<u>1,271,569</u>	<u>1,377,138</u>	<u>1,344,398</u>
<b>Deferred inflows of resources</b>				
Deferred inflows related to pension	<u>9,554</u>	<u>9,554</u>	<u>19,108</u>	<u>22,645</u>
<b>Net position</b>				
Net investment in capital assets	789,335	244,193	1,033,528	1,188,379
Unrestricted	<u>502,858</u>	<u>1,010,442</u>	<u>1,513,300</u>	<u>1,367,069</u>
Total net position	<u>1,292,193</u>	<u>1,254,635</u>	<u>2,546,828</u>	<u>2,555,448</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,437,107</u>	<u>\$ 2,577,726</u>	<u>\$ 4,014,833</u>	<u>\$ 3,993,154</u>

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

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

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

For the year ended June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
<b>Operating revenues</b>				
Water sales	\$ -	\$ 200,937	\$ 200,937	\$ 191,853
Sewer sales	319,914	-	319,914	293,375
Grant revenue	87,369	-	87,369	114,354
Surcharges	<u>21,252</u>	<u>22,217</u>	<u>43,469</u>	<u>44,632</u>
Total operating revenue	<u>428,535</u>	<u>223,154</u>	<u>651,689</u>	<u>644,214</u>
<b>Operating expenses</b>				
Transmission and distribution	219,125	56,428	275,553	374,489
General and administrative	179,963	120,011	299,974	238,932
Depreciation	<u>71,700</u>	<u>103,151</u>	<u>174,851</u>	<u>167,480</u>
Total operating expenses	<u>470,788</u>	<u>279,590</u>	<u>750,378</u>	<u>780,901</u>
Operating loss	<u>(42,253)</u>	<u>(56,436)</u>	<u>(98,689)</u>	<u>(136,687)</u>
<b>Non-operating revenues (expenses)</b>				
Property taxes	54,515	54,515	109,030	105,130
Interest income	3,375	3,375	6,750	4,370
Other income (expense)	5,733	4,316	10,049	9,584
Interest expense	<u>-</u>	<u>(35,760)</u>	<u>(35,760)</u>	<u>(36,353)</u>
Total non-operating revenue (expenses)	<u>63,623</u>	<u>26,446</u>	<u>90,069</u>	<u>82,731</u>
<b>Change in net position</b>	21,370	(29,990)	(8,620)	(53,956)
<b>Net position, beginning of year</b>	<u>1,270,823</u>	<u>1,284,625</u>	<u>2,555,448</u>	<u>2,609,404</u>
<b>Net position, end of year</b>	<u>\$ 1,292,193</u>	<u>\$ 1,254,635</u>	<u>\$ 2,546,828</u>	<u>\$ 2,555,448</u>

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

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Statements of Cash Flows**

For the year ended June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 416,968	\$ 221,175	\$ 638,143	\$ 648,940
Cash paid to employees	(91,599)	(40,484)	(132,083)	(139,328)
Cash paid to suppliers	<u>(297,066)</u>	<u>(124,415)</u>	<u>(421,481)</u>	<u>(479,514)</u>
Net cash provided by operating activities	<u>28,303</u>	<u>56,276</u>	<u>84,579</u>	<u>30,098</u>
<b>Cash flows from noncapital financing activities</b>				
Collections on notes receivable	2,000	2,000	4,000	4,000
Property taxes	54,515	54,515	109,030	105,130
Customer deposits	200	200	400	600
Other	<u>5,733</u>	<u>4,316</u>	<u>10,049</u>	<u>9,584</u>
Net cash provided by noncapital financing activities	<u>62,448</u>	<u>61,031</u>	<u>123,479</u>	<u>119,314</u>
<b>Cash flows from capital and related financing activities</b>				
Purchases of capital assets	-	-	-	(273,417)
Payments on long-term debt	-	(20,000)	(20,000)	(19,000)
Interest paid on long-term debt	<u>-</u>	<u>(35,760)</u>	<u>(35,760)</u>	<u>(36,353)</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>(55,760)</u>	<u>(55,760)</u>	<u>(328,770)</u>
<b>Cash flows from investing activities</b>				
Interest received	<u>3,375</u>	<u>3,375</u>	<u>6,750</u>	<u>4,370</u>
Net cash provided by investing activities	<u>3,375</u>	<u>3,375</u>	<u>6,750</u>	<u>4,370</u>
<b>Net increase (decrease) in cash and investments</b>	94,126	64,922	159,048	(174,988)
<b>Cash and cash equivalents, beginning of year</b>	<u>473,080</u>	<u>1,023,070</u>	<u>1,496,150</u>	<u>1,671,138</u>
<b>Cash and cash equivalents, end of year (including \$10,950 and \$10,550, respectively, for customer deposits reported as restricted cash)</b>	<u>\$ 567,206</u>	<u>\$ 1,087,992</u>	<u>\$ 1,655,198</u>	<u>\$ 1,496,150</u>

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Statements of Cash Flows (Continued)**

For the year ended June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating loss to net cash provided</b>				
<b>by operating activities</b>				
Operating loss	\$ (42,253)	\$ (56,436)	\$ (98,689)	\$ (136,687)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation	71,700	103,151	174,851	167,480
Pension related adjustments	11,649	11,649	23,298	(22,658)
Changes in operating assets and liabilities				
Accounts receivable	(11,567)	(1,979)	(13,546)	4,726
Prepaid expenses	(716)	(715)	(1,431)	457
Accounts payable	(147)	877	730	15,596
Accrued interest	-	(150)	(150)	(142)
Accrued expenses	<u>(363)</u>	<u>(121)</u>	<u>(484)</u>	<u>1,326</u>
Net cash provided by operating activities	<u>\$ 28,303</u>	<u>\$ 56,276</u>	<u>\$ 84,579</u>	<u>\$ 30,098</u>

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

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note A - Summary of Significant Accounting Policies

This summary of significant accounting policies of Valley Springs Public Utility District (the District) is presented to assist in understanding the District's financial statements.

#### Financial reporting entity

The District was established in 1948 for the purpose of supplying water and operating a sewer system to properties within the District which includes the unincorporated community of Valley Springs. The District is administered by a five member board and is independent from the community of Valley Springs and Calaveras County, except that the County assesses and collects property taxes on behalf of the District.

As required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The District's financial reporting entity is composed of the following:

Primary Government:	Valley Springs Public Utility District
Blended Component Unit:	Valley Springs Public Utility District Financing Authority

In determining the financial reporting entity, the District complies with the provisions of Government Accounting Standards Board (GASB) Statements No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*.

The following funds are included in the District's financial statements and are combined for financial reporting purposes:

- Sewer Fund
- Water Fund

#### Blended Component Units

Valley Springs Public Utility District (the District) and the Calaveras Public Utility District entered into a Joint Exercise of Powers Agreement dated June 24, 2009, forming the Valley Springs Public Utility Financing Authority (the Authority). The Authority is authorized to borrow money for the purpose of assisting the District in financing various public capital

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note A - Summary of Significant Accounting Policies (Continued)

improvements and working capital. The Authority borrowed funds from the United States Department of Agriculture in order to fund such expenditures. The Authority's governing board is the same as the District's board members. The financial activities of the Authority have been included in these financial statements in the Water Fund.

#### Basis of accounting

The financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the District's proprietary funds follow all GASB pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict with GASB pronouncements.

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 District's operating revenues include all revenues derived from water and sewage services. Operating expenses include all costs related to water and sewage services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Fund accounting

The District utilizes proprietary funds to account for its activities, which are similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

#### Budgetary accounting

The District does not adopt an appropriated budget and is not required to adopt such a budget by law. However, the District does adopt a non-appropriated budget annually which is approved by the Board of Directors.

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note A - Summary of Significant Accounting Policies (Continued)

#### Cash and investments

For the purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted assets represents cash that is not available for normal operating purposes. Customer deposits consist of deposits collected from customers at the time water service is initially provided and are refundable within one year of that date.

#### Capital assets

All capital assets are valued at historical cost. The District's policy is to capitalize all assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years.

Depreciation has been provided on capital assets and is charged as an expense against operations each year. The total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense.

Depreciation is provided using the straight line method. The estimated useful lives are as follows:

Building	40 years
Utility plant	5-50 years
Sewer plant and equipment	5-40 years
Office equipment	5-7 years
Water storage tank	20-40 years
Backup water storage	40 years
Emergency well	20 years
Wastewater project improvements	20-30 years

#### Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note A - Summary of Significant Accounting Policies (Continued)

#### Deferred outflow/inflows of resources

In addition to assets, liabilities and net position, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resource (revenue) until that time.

Contributions made to the District's pension plan(s) after the measurement date but before the fiscal year end are recorded as a deferred outflow of resources and will reduce the net pension liability in the next fiscal year.

Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods.

#### Pensions

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

#### Net position

Equity in the financial statements is classified as net position and displayed in three components as follows:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note A - Summary of Significant Accounting Policies (Continued)

- b. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to these assets.
- c. Unrestricted - Amounts not required to be reported in other components of net position.

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

#### Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quotes prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

#### Water and sewer revenues

Water and sewer revenues result from fees charged by the District based upon actual usage. The District considers its water and sewer revenues earned when the District assesses its members for the water used. Surcharges are charged on unpaid balances and are included in operating revenues.

#### Property taxes

Property taxes levied January 1, 2016 were payable in two installments on December 10, 2016 and April 10, 2017. Property taxes levied January 1, 2015 were payable in two installments on December 10, 2015 and April 10, 2016. The County of Calaveras bills and collects property taxes on behalf of the District.

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# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note A - Summary of Significant Accounting Policies (Continued)

#### Estimates

The preparation of the 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. Actual results could differ from those estimates.

#### New accounting pronouncements

In March 2016, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classifications of payments made by employers to satisfy employee (plan member) contribution requirements. The District implemented the provisions of this Statement for the year ended June 30, 2017. There was no impact on beginning net position as part of implementation of this accounting standard.

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The District will be required to implement the provisions of this Statement for the year ended June 30, 2021. The District has not determined the effect on the financial statements.

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note B - Cash and Investments**

Cash and investments of the District as of June 30, 2017, consist of the following:

	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Fair value</u>
<b>Unrestricted</b>			
<u>Deposits in commercial accounts</u>			
Public checking and money market	\$ 865,153	\$ 866,576	
<u>Investment in external investment pools</u>			
Calaveras County Treasurer	8,335		\$ 8,335
California Local Agency Investment Fund (LAIF)	770,728		<u>770,728</u>
			<u>\$ 779,063</u>
<u>Petty cash</u>	32		
<b>Restricted</b>			
<u>Deposits in commercial accounts</u>			
Public checking and money market	<u>10,950</u>	<u>10,950</u>	
Total cash and investments	<u>\$ 1,655,198</u>	<u>\$ 877,526</u>	

Cash and investments of the District as of June 30, 2016, consist of the following:

	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Fair value</u>
<b>Unrestricted</b>			
<u>Deposits in commercial accounts</u>			
Public checking and money market	\$ 714,407	\$ 729,090	
<u>Investment in external investment pools</u>			
Calaveras County Treasurer	5,420		\$ 5,420
California Local Agency Investment Fund (LAIF)	765,741		<u>765,741</u>
			<u>\$ 771,161</u>
<u>Petty cash</u>	32		
<b>Restricted</b>			
<u>Deposits in commercial accounts</u>			
Public checking and money market	<u>10,550</u>	<u>10,550</u>	
Total cash and investments	<u>\$ 1,496,150</u>	<u>\$ 739,640</u>	

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note B - Cash and Investments (Continued)**

*Deposit and Investment Policy*

California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600. The table below identifies the investment types that are authorized for the District by the California Government Code, Section 53600 (or District's investment policy, where more restrictive) that address interest rate risk, credit risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Obligations	5 years	None	30%
Local municipal bonds	5 years	None	5%
Repurchase Agreements	30 days	10%	None
Mortgage Pass-Through Securities	5 years	20%	None
Bankers Acceptances	180 days	40%	5%
Commercial Paper	270 days	40%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Medium Term Corporate Notes	5 years	30%	5%
Money Market Mutual Funds	N/A	20%	10%
Time Deposits	5 years	20%	5%
Joint Powers Authority	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Local government investment pools	N/A	None	None

The District complied with the provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments. The District does not maintain a formal investment policy.

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note B - Cash and Investments (Continued)**

*Disclosures Relating to Interest Rate Risk*

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

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

<u>Investment type</u>	<u>Total</u>	<u>Remaining maturity (in months)</u>					
		<u>12 months or less</u>	<u>13 - 24 months</u>	<u>25 - 36 months</u>	<u>37-48 months</u>	<u>49-60 months</u>	<u>More than 60 months</u>
Calaveras County							
Treasurer	\$ 8,335	\$ 8,335	\$ -	\$ -	\$ -	\$ -	\$ -
Local Agency							
Investment Fund	<u>770,728</u>	<u>770,728</u>	-	-	-	-	-
	<u>\$ 779,063</u>	<u>\$ 779,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Disclosures Relating to Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>			
				<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
Calaveras County							
Treasurer	\$ 8,335	N/A	\$ -	\$ -	\$ -	\$ -	\$ 8,335
Local Agency							
Investment Fund	<u>770,728</u>	<u>N/A</u>	-	-	-	-	<u>770,728</u>
Total	<u>\$ 779,063</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 779,063</u>

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note B - Cash and Investments (Continued)

#### Concentration of Credit Risk

The District had no investment policy limiting the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District has no investments in any one issuer (other than the U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, the District's bank balance was \$877,526 and \$250,000 of that amount was insured by the Federal Deposit Insurance Corporation and collateralized as required by state law and the remaining amount of \$627,526 was secured by a pledge of securities by the financial institution.

#### Investment in External Investment Pool

The District's investment in the Calaveras County investment pool is managed by the Calaveras County Treasurer and is stated at fair value or amortized cost, which approximates fair value. Cash held by the Calaveras County Treasury is pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer (see County Treasurer's investment policy at <http://www.co.calaveras.ca.us/>). The Pool has established a treasury oversight committee to monitor and review the management

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note B - Cash and Investments (Continued)

of public funds maintained by the Pool. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. In accordance with applicable State laws, the Calaveras County Treasurer may invest in derivative securities. However, at June 30, 2017, the Calaveras County Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

#### California Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by California Governmental Code Section 16429 under the oversight of the Treasurer of the State of California. Investments in LAIF are invested in accordance with the investment policy of the State Treasurer for LAIF accounts (see State Treasurer's investment policy for LAIF accounts and separately issued financial reports for LAIF at [http:// www.treasurer.ca.gov/pmia-laif/](http://www.treasurer.ca.gov/pmia-laif/)). The total amount invested by all public agencies in LAIF is \$77,559,119,072 of which 2.25% is invested in structured notes and asset-backed securities. Included in LAIF's investment portfolio are United States Treasury and federal agency securities, International Bank for Reconstruction and Development federal agency floating rate debentures, bank notes, certificates of deposit, commercial paper, corporate floaters and bonds, time deposits and California Assembly Bill 55 and State of California General Fund Loans. Participants equity in LAIF is determined by the dollar amount of the participant's deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily investment balances. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The carrying value of LAIF approximates fair value.

The District does not maintain a formal investment policy.

#### Fair value hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note B - Cash and Investments** (Continued)

The District's investment in the County of Calaveras Treasury Pool is classified as Level 2 and its value is based on the fair value factor provided by the Treasurer of the County of Calaveras, which is calculated as the fair value divided by the amortized cost of the investment pool. The District's investment in the California Local Agency Investment Fund is classified as Level 2. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The District categorized its investments in LAIF based on the lowest significant input used to determine the fair market value of the total pool.

**Note C - Accounts Receivable**

The District records accounts receivable based on water and sewage usage. There is no allowance for doubtful accounts recorded because collectability is assured through a lien process.

**Note D - Capital Assets**

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance				Balance
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2017</u>
Nondepreciable capital assets					
Land	\$ 36,690	\$ -	\$ -	\$ -	\$ 36,690
Total nondepreciable capital assets	<u>36,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,690</u>
Depreciable capital assets					
Building	81,022	-	-	-	81,022
Utility plant	262,352	-	-	-	262,352
Sewer plant and equipment	1,704,930	-	-	-	1,704,930
Office equipment	15,833	-	-	-	15,833
Water storage tank	78,691	-	-	-	78,691
Backup water storage	125,575	-	-	-	125,575
Emergency well	2,014,672	-	-	-	2,014,672
Wastewater project improvements	<u>266,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,401</u>
Total depreciable capital assets	4,549,476	-	-	-	4,549,476
Less accumulated depreciation	<u>(2,190,787)</u>	<u>(174,851)</u>	<u>-</u>	<u>-</u>	<u>(2,365,638)</u>
Total depreciable capital assets, net	<u>2,358,689</u>	<u>(174,851)</u>	<u>-</u>	<u>-</u>	<u>2,183,838</u>
Total capital assets, net	<u>\$ 2,395,379</u>	<u>\$ (174,851)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,220,528</u>

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note D - Capital Assets** (Continued)

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance <u>June 30, 2016</u>
Nondepreciable capital assets					
Land	\$ 36,690	\$ -	\$ -	\$ -	\$ 36,690
Total nondepreciable capital assets	<u>36,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,690</u>
Depreciable capital assets					
Building	78,066	2,956	-	-	81,022
Utility plant	259,307	6,435	(3,390)	-	262,352
Sewer plant and equipment	1,440,903	264,027	-	-	1,704,930
Office equipment	15,833	-	-	-	15,833
Water storage tank	78,691	-	-	-	78,691
Backup water storage	125,575	-	-	-	125,575
Emergency well	2,014,672	-	-	-	2,014,672
Wastewater project improvements	<u>266,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,401</u>
Total depreciable capital assets	4,279,448	273,418	(3,390)	-	4,549,476
Less accumulated depreciation	<u>(2,026,697)</u>	<u>(167,480)</u>	<u>3,390</u>	<u>-</u>	<u>(2,190,787)</u>
Total depreciable capital assets, net	<u>2,252,751</u>	<u>105,938</u>	<u>-</u>	<u>-</u>	<u>2,358,689</u>
Total capital assets, net	<u>\$ 2,289,441</u>	<u>\$ 105,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,395,379</u>

**Note E - Long-Term Debt**

The changes in long-term debt for the year ended June 30, 2017 were as follows:

	Beginning <u>balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>balance</u>	Current <u>portion</u>
\$1,300,000 note payable to United States Department of Agriculture, annual principal payments on October 1, semi-annual interest payments on April 1 and October 1, interest at 3.0%, secured and due October 1, 2050.	\$ 1,207,000	\$ -	\$ (20,000)	\$ 1,187,000	\$ 21,000
	<u>\$ 1,207,000</u>	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ 1,187,000</u>	<u>\$ 21,000</u>

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note E - Long-Term Debt** (Continued)

The changes in long-term debt for the year ended June 30, 2016 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
\$1,300,000 note payable to United States Department of Agriculture, annual principal payments on October 1, semi-annual interest payments on April 1 and October 1, interest at 3.0%, secured and due October 1, 2050.	\$ 1,226,000	\$ -	\$ (19,000)	\$ 1,207,000	\$ 20,000
	\$ 1,226,000	\$ -	\$ (19,000)	\$ 1,207,000	\$ 20,000

Maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 21,000	\$ 35,295
2019	21,000	34,665
2020	22,000	34,020
2021	23,000	33,345
2022	23,000	32,655
2023-2027	127,000	152,235
2028-2032	147,000	131,685
2033-2037	170,000	108,000
2038-2042	198,000	80,490
2043-2047	229,000	48,525
2048-2051	206,000	12,420
	\$ 1,187,000	\$ 703,335

**Note F - Pension Plans**

General Information about the Pension Plans

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

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note F - Pension Plans (Continued)**

**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. Miscellaneous plan members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous plan members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u><b>Miscellaneous</b></u>
	Prior to <u>January 1, 2013</u>
Hire date	<u>January 1, 2013</u>
Benefit formula	2.0% @ 55
Benefit vesting schedule	5 years of service
Benefit payments	Monthly for life
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%
Required employee contribution rates	7%
Required employer contribution rates	8.377%
	 <u><b>PEPRA</b></u> <u><b>Miscellaneous</b></u>
	On or after <u>January 1, 2013</u>
Hire date	<u>January 1, 2013</u>
Benefit formula	2.0% @ 62
Benefit vesting schedule	5 years of service
Benefit payments	Monthly for life
Retirement age	52-62
Monthly benefits, as a % of eligible compensation	1.0% to 2.50%
Required employee contribution rates	6.25%
Required employer contribution rates	6.555%

In addition to the contribution rates above, the District was also required to make a payment of \$7,369 toward its unfunded actuarial liability during the year ended June 30, 2017. All plans except the PEPRA plan are closed to new members that are not already CalPERS participants.

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note F - Pension Plans (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 both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plans were as follows:

	Miscellaneous and PEPR Miscellaneous
Contributions - employer	\$ <u>14,990</u>

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate share of net pension liability
Miscellaneous and PEPR Miscellaneous	\$ <u>200,188</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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 plans relative to the projected contributions of all participating employers, actuarially determined.

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note F - Pension Plans** (Continued)

The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous and PEPR Miscellaneous</u>
Proportion - June 30, 2015	0.00536%
Proportion - June 30, 2016	<u>0.00576</u>
Change - increase (decrease)	<u>(0.00040)%</u>

For the year ended June 30, 2017, the District recognized pension expense of \$16,428. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Pension contributions subsequent to measurement date	\$ 14,990	\$ -
Differences between actual and expected experience	502	(115)
Changes in assumptions	-	(4,747)
Adjustments due to differences in employers' proportions	-	(14,245)
Differences between the employer's contributions and the employer's proportionate share of contributions	2,044	-
Net differences between projected and actual earnings on plan investments	<u>24,707</u>	<u>-</u>
Total	<u>\$ 42,243</u>	<u>\$ (19,107)</u>

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note F - Pension Plans** (Continued)

\$14,990 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, 2018. 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>Fiscal year ended June 30,</u>	
2018	\$ (11,014)
2019	1,659
2020	11,101
2021	<u>6,400</u>
Total	<u>\$ 8,146</u>

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous and PEPRA Miscellaneous</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry age normal cost level
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.2% to 12.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expense, including inflation
- (3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2016 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

(Continued)

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note F - Pension Plans (Continued)

**Discount Rate** - The discount rate used to measure the total pension liability was 7.65% for the Plans. 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. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). 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.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The discount rate was changed from 7.50% to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

(Continued)

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note F - Pension Plans** (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00	0.99	2.43
Inflation Assets	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	<u>1.00</u>	(0.55)	(1.05)
Total	<u><u>100.00%</u></u>		

(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 Plans, calculated using the discount rate for the Plans, 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:

	<u>Miscellaneous and PEPRA Miscellaneous</u>
1% Decrease	6.65%
Net pension liability	\$ 311,887
Current discount rate	7.65%
Net pension liability	\$ 200,188
1% Increase	8.65%
Net pension liability	\$ 107,874

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

# VALLEY SPRINGS PUBLIC UTILITY DISTRICT

## Notes to Financial Statements

June 30, 2017 and 2016

### Note G - Deferred Compensation Plan

Employees of the District may participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, death, or unforeseeable emergency. Total employee contributions to the plan during the years ended June 30, 2017 and 2016 were \$11,800 and \$10,350, respectively.

### Note H - Joint Venture (Joint Powers Agreement)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; risk of loss to employees; and natural disasters. In order to insure for risks of loss, the District participates in a joint venture under a joint powers agreement with the Special Districts Risk Management Authority (SDRMA). The relationship between the District and the SDRMA is such that the SDRMA is not a component unit of the District for financial reporting purposes. The SDRMA arranges for and provides property, liability and worker's compensation coverage for its member districts.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the SDRMA. The District's share of surpluses and deficits cannot be determined, although District management does not expect such amounts, if any, to be material in relation to the financial statements.

The District is covered by the following types of insurance through the SDRMA as of June 30, 2017:

<u>Coverage</u>	<u>Limits of liability</u>
General liability	\$ 2,500,000
Public officials and employees errors	2,500,000
Personal liability coverage for board members	500,000
Employment practices liability	2,500,000
Employee benefits liability	2,500,000
Employee dishonesty coverage	1,000,000
Auto liability	2,500,000
Uninsured/underinsured motorists	1,000,000
Property coverage	1,000,000,000
Boiler and machinery	100,000,000
Workers' compensation - statutory	Statutory
Workers' compensation - employers' liability	5,000,000

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Notes to Financial Statements**

June 30, 2017 and 2016

**Note I - Governing Board**

The powers of the District are exercised by a Board of Directors consisting of five directors, each elected for a term of four years by the qualified electors within the District. As of June 30, 2017, the members of the District's Board of Directors were as follows:

<u>Directors</u>	<u>Term expires</u>
Lucille Allee	December 2020
Connie Gleason	December 2018
Jeff Duke	December 2020
Theresa Cardenas	December 2018
Paul Robertson	December 2018

**REQUIRED SUPPLEMENTARY INFORMATION**

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**  
**Schedule of the District's Proportionate Share**  
**of the Net Pension Liability**

For the year ended June 30, 2017  
Last 10 years\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.00576%	0.00536%	0.00229%
Proportionate share of the net pension liability	200,188	146,848	142,254
Covered - employee payroll	131,075	127,908	126,016
Proportionate share of the net pension liability as a percentage of covered - employee payroll	152.73%	161.39%	161.61%
Plan's fiduciary net position	683,810	709,986	695,953
Plan fiduciary net position as a percentage of the total pension liability	341.58%	483.48%	489.23%

**Notes to schedule:**

Changes in assumptions: The discount rate was changed from 7.50% (net of administrative expense) to 7.65% in the June 30, 2014 valuation.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**VALLEY SPRINGS PUBLIC UTILITY DISTRICT**

**Schedule of Contributions**

For the year ended June 30, 2017  
Last 10 years\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 14,990	\$ 14,025	\$ 11,636
Contributions in relation to the actuarially determined contributions	<u>(14,990)</u>	<u>(14,025)</u>	<u>(11,636)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll - fiscal year	\$ 131,075	\$ 133,690	\$ 126,016
Contributions as a percentage of covered-employee payroll	11.44%	10.49%	9.23%

**Notes to schedule:**

Methods and assumptions used to determine contribution rates:

	June 30, 2015	June 30, 2014	June 30, 2013
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Asset valuation method	Market value	Market value	Market value
Actuarial assumptions:			
Discount rate	7.65%	7.65%	7.50%
Projected salary increases	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service
Inflation	2.75%	2.75%	2.75%
Payroll growth	3.00%	3.00%	3.00%

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to that date.

## **SUPPLEMENTARY INFORMATION**

VALLEY SPRINGS PUBLIC UTILITY DISTRICT

Summaries of Operating Expenses

June 30,

	<u>2017</u>	<u>2016</u>
<b>Transmission and distribution</b>		
Materials, supplies and services	\$ 187,880	\$ 296,659
Power	57,830	46,534
Water analysis and sewer inspection	<u>29,843</u>	<u>31,296</u>
	<u>275,553</u>	<u>374,489</u>
<b>General and administrative</b>		
Salaries	133,929	142,015
Retirement	58,263	11,976
Legal and accounting	29,590	14,498
Employee benefits	21,896	15,336
Payroll taxes	15,347	15,808
Insurance	12,742	15,072
Fuel	9,827	2,087
Directors fees and travel	7,147	6,328
Fees	5,273	3,361
Utilities	3,691	8,864
Office	1,477	2,739
Other	<u>792</u>	<u>848</u>
	<u>299,974</u>	<u>238,932</u>
<b>Depreciation</b>	<u>174,851</u>	<u>167,480</u>
	<u>\$ 750,378</u>	<u>\$ 780,901</u>