

**LA HABRA HEIGHTS COUNTY WATER DISTRICT
LA HABRA HEIGHTS, CALIFORNIA**

BASIC FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2020

LA HABRA HEIGHTS COUNTY WATER DISTRICT

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For the years ended June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
La Habra Heights County Water District
La Habra Heights, California

We have audited the accompanying financial statements of the La Habra Heights County Water District (the District) as of and for the year ended June 30, 2020, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider internal control relevant to the District'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 District'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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the La Habra Heights County Water District as of June 30, 2020, 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.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which such partial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions, and the schedule of changes in the other post-employment benefit (OPEB) liability and related ratios, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expense is 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 schedule of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
October 28, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$387,623 or 2.37 percent.
- During the year the District's total revenues increased to \$5,235,361 or 5.26 percent, and expenses increased to \$4,865,274 or 7.25 percent from the prior year.
- Capital contributions to the District increased to \$17,536.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements and Supplementary Information. The Basic Financial Statements also include notes that explain in more detail some of the information in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Basic Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The Statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2020

FINANCIAL ANALYSIS OF THE DISTRICT

Management's analysis of the District begins on page 13 of the Basic Financial Statements. "Is the District as a whole better off or worse off as a result of the year's activities?" is one of the most important questions to answer about the District's finances. The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. The District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2020

NET POSITION

To begin our analysis, a summary of the District’s Statements of Net Position is presented in Table 1.

TABLE 1
Condensed Statements of Net Position

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	2020-2019 Variance		2019-2018 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Assets:							
Current and Other Assets	\$ 5,048,412	\$ 4,809,603	\$ 4,382,355	\$ 238,809	4.97%	\$ 427,248	9.75%
Capital Assets	15,063,869	14,812,019	14,586,232	251,850	1.70%	225,787	1.55%
Deferred Outflow fo Resources	339,931	244,914	358,210	95,017	38.80%	(113,296)	-31.63%
Total Assets and Deferred Outflows of Resources	20,452,212	19,866,536	19,326,797	585,676	2.95%	539,739	2.79%
Liabilities:							
Current Liabilities	683,097	724,242	646,117	(41,145)	-5.68%	78,125	12.09%
Long-Term Liabilities	2,505,645	2,220,912	2,549,096	284,733	12.82%	(328,184)	-12.87%
Deferred Inflows of Resources	490,318	535,853	183,734	(45,535)	-8.50%	352,119	191.65%
Total Liabilities and Deferred Inflows of Resources	3,679,060	3,481,007	3,378,947	198,053	5.69%	102,060	3.02%
Net Position:							
Net Investment in Capital Assets	14,826,822	14,519,096	14,238,720	307,726	2.12%	280,376	1.97%
Restricted - Debt Service	38,407	47,430	56,233	(9,023)	-19.02%	(8,803)	-15.65%
Unrestricted	1,907,923	1,819,003	1,652,897	88,920	4.89%	166,106	10.05%
Total Net Position	\$ 16,773,152	\$ 16,385,529	\$ 15,947,850	\$ 387,623	2.37%	\$ 437,679	2.74%

Total Net Position increased by \$387,623 from fiscal year 2019 to 2020. Total Assets and Deferred Outflows of Resources increased by \$585,676. This change is primarily due to increased balance in Cash, Investment in State of California Local Agency Investment Fund and Capital Assets. Total Liabilities and Deferred Inflows of Resources increased by \$198,053. This is represented by an increase in Long-Term Liabilities related to Net Pension Liability and Total OPEB Liability.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2020

NET POSITION (CONTINUED)

TABLE 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	2020-2019 Variance		2019-2018 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Revenues:							
Operating Revenues	\$ 4,218,201	\$ 3,976,568	\$ 4,068,269	\$ 241,633	6.08%	\$ (91,701)	-2.25%
Nonoperating Revenues	1,017,160	997,403	930,734	19,757	1.98%	66,669	7.16%
Total Revenues	5,235,361	4,973,971	4,999,003	261,390	5.26%	(25,032)	-0.50%
Expenses:							
Depreciation	474,361	473,719	489,622	642	0.14%	(15,903)	-3.25%
Other Operating Expenses	4,384,629	4,056,280	3,983,278	328,349	8.09%	73,002	1.83%
Nonoperating Expenses	6,284	6,293	20,412	(9)	-0.14%	(14,119)	-69.17%
Total Expenses	4,865,274	4,536,292	4,493,312	328,982	7.25%	42,980	0.96%
Net Income Before							
Capital Contributions	370,087	437,679	505,691	(67,592)	-15.44%	(68,012)	-13.45%
Capital Contributions	17,536	-	17,688	17,536	-	(17,688)	-100.00%
Changes in Net Position	387,623	437,679	523,379	(50,056)	-11.44%	(85,700)	-16.37%
Net Position, Beginning of Year	16,385,529	15,947,850	15,424,471	437,679	2.74%	523,379	3.39%
Net Position, End of Year	\$ 16,773,152	\$ 16,385,529	\$ 15,947,850	\$ 387,623	2.37%	\$ 437,679	2.74%

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, Changes in Net Position increased by \$387,623 in fiscal year 2020.

A closer examination of the source of changes in net position reveals that operating revenues increased by \$241,633 which results from a combination of decreased water sales to customers by 0.8% compared to last year and an increase in water rates. Rainfall of 16.59 inches for the year was slightly above average.

Other Operating Expenses increased by \$328,349. An item affecting Other Operating Expenses are increased OPEB Expense. In addition, Transmission and Distribution expenditures increased due to required infrastructure repairs and leaks.

Net Income Before Capital Contributions decreased by \$67,592, resulting from the above mentioned items.

Capital Contributions increased by \$17,536, due to infrastructure installations by a third party.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2020

BUDGETARY HIGHLIGHTS

Table 3
Budget vs. Actual

	Fiscal Year 2020			Fiscal Year 2019			Fiscal Year 2018		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:									
Operating Revenues:									
Water Sales:									
Consumption	\$ 2,550,082	\$ 2,326,342	\$ (223,740)	\$ 2,365,080	\$ 2,183,412	\$ (181,668)	\$ 2,066,189	\$ 2,380,937	\$ 314,748
Readiness to serve	1,824,649	1,837,574	12,925	1,718,028	1,729,992	11,964	1,611,132	1,626,085	14,953
Water rights lease	25,806	24,769	(1,037)	18,539	26,572	8,033	18,235	25,006	6,771
Other	27,146	29,516	2,370	28,733	36,592	7,859	27,159	36,241	9,082
Nonoperating revenues	1,010,156	1,017,160	7,004	965,892	997,403	31,511	861,847	930,734	68,887
Total Revenues	<u>\$ 5,437,839</u>	<u>\$ 5,235,361</u>	<u>\$ (202,478)</u>	<u>\$ 5,096,272</u>	<u>\$ 4,973,971</u>	<u>\$ (122,301)</u>	<u>\$ 4,584,562</u>	<u>\$ 4,999,003</u>	<u>\$ 414,441</u>
Expenses:									
Operating Expenses:									
Sources of supply	1,250,119	1,074,530	(175,589)	1,178,806	1,006,907	(171,899)	1,062,158	1,147,503	85,345
Depreciation	1,056,274	474,361	(581,913)	559,296	473,719	(85,577)	511,832	489,622	(22,210)
Administrative and general	1,674,194	1,727,894	53,700	1,710,712	1,690,095	(20,617)	1,507,946	1,514,895	6,949
Pumping	716,866	697,301	(19,565)	696,629	615,439	(81,190)	614,750	658,909	44,159
Transmission and distribution	443,478	683,228	239,750	469,102	514,994	45,892	452,315	431,051	(21,264)
Customer accounts	194,780	165,646	(29,134)	100,482	190,021	89,539	136,981	198,261	61,280
Water treatment	40,033	36,030	(4,003)	38,296	38,824	528	32,259	32,659	400
Nonoperating expenses	5,218	6,284	1,066	6,293	6,293	-	7,348	20,412	13,064
Total Expenses	<u>5,380,962</u>	<u>4,865,274</u>	<u>(515,688)</u>	<u>4,759,616</u>	<u>4,536,292</u>	<u>(223,324)</u>	<u>4,325,589</u>	<u>4,493,312</u>	<u>167,723</u>
Income Before									
Capital Contributions	56,877	370,087	313,210	336,656	437,679	101,023	258,973	505,691	246,718
Capital Contributions	-	17,536	17,536	-	-	-	-	17,688	17,688
Changes in Net Position	<u>56,877</u>	<u>\$ 387,623</u>	<u>\$ 330,746</u>	<u>336,656</u>	<u>\$ 437,679</u>	<u>\$ 101,023</u>	<u>258,973</u>	<u>\$ 523,379</u>	<u>\$ 264,406</u>
Debt Service,									
Principle due	<u>(46,329)</u>			<u>(43,204)</u>			<u>(44,220)</u>		
Changes in Net Position, after Debt Service,									
Principle due	<u>\$ 10,548</u>			<u>\$ 293,452</u>			<u>\$ 214,753</u>		

The variance of budget to actual indicates Changes in Net Position difference of \$330,746. The main differences are represented by Operating Expenses- Source of Supply and Depreciation which are lower than budget. These variances were offset by Operating Expenses – Transmission and Distribution which is higher than budget.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2020 the District had invested \$15,063,869 in a broad range of infrastructure as shown in Table 4.

TABLE 4
Capital Assets

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	2020-2019 Variance		2019-2018 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, not depreciated:							
Land	\$ 532,744	\$ 532,744	\$ 532,744	\$ -	0.00%	\$ -	0.00%
Water rights	1,608,491	1,309,491	1,309,491	\$ 299,000	22.83%	-	0.00%
Construction in Progress	263,307	25,692	50,581	237,615	924.86%	(24,889)	-49.21%
Total capital assets, not depreciated	2,404,542	1,867,927	1,892,816	536,615	28.73%	(24,889)	-1.31%
Capital assets, being depreciated:							
Sources of supply	2,282,512	2,283,601	2,283,601	(1,089)	-0.05%	-	0.00%
Pumping	1,625,878	1,625,878	1,625,878	-	0.00%	-	0.00%
Transmission and distribution	25,280,920	25,265,048	24,633,784	15,872	0.06%	631,264	2.56%
General	1,978,055	1,869,504	1,777,859	108,551	5.81%	91,645	5.15%
Total capital assets, being depreciated	31,167,365	31,044,031	30,321,122	123,334	0.40%	722,909	2.38%
Less accumulated depreciation for:							
Sources of supply	(1,336,498)	(1,257,816)	(1,176,233)	(78,682)	6.26%	(81,583)	6.94%
Pumping	(1,401,916)	(1,364,275)	(1,326,633)	(37,641)	2.76%	(37,642)	2.84%
Transmission and distribution	(14,243,602)	(13,963,993)	(13,678,909)	(279,609)	2.00%	(285,084)	2.08%
General	(1,526,022)	(1,513,855)	(1,445,931)	(12,167)	0.80%	(67,924)	4.70%
Total accumulated depreciation	(18,508,038)	(18,099,939)	(17,627,706)	(408,099)	2.25%	(472,233)	2.68%
Total capital assets, being depreciated, net	12,659,327	12,944,092	12,693,416	(284,765)	-2.20%	250,676	1.97%
Capital assets, net	<u>\$ 15,063,869</u>	<u>\$ 14,812,019</u>	<u>\$ 14,586,232</u>	<u>\$ 251,850</u>	<u>1.70%</u>	<u>\$ 225,787</u>	<u>1.55%</u>

Increases for fiscal year 2020 Capital assets, not being depreciated-Water Rights of \$299,999 and Capital assets, being depreciated-General of \$108,551 resulted from the following replacements:

- 20 acre feet of water rights in central basin
- Equipping of valve truck
- Portable radios
- Automated hand held meter reader hardware
- Computer in office

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2020

DEBT ADMINISTRATION

At year-end, the District had \$179,849 in long-term liabilities down from \$237,046 in fiscal year 2019 for a decrease of \$57,197 or 24.1 percent, which was the amount of fiscal year 2020 principal payments on outstanding debt. The 1981 State Loan Payable is the only debt that is outstanding at year end 2020. The District did not issue new debt in fiscal year 2020 to finance major capital improvements.

Additional detail on long-term liabilities is shown in Note 4 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when setting the fiscal year 2021 budget, user fees and charges. The factors include cost of purchasing water, as well as, electricity costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tammy Wagstaff at La Habra Heights County Water District.

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LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2020

(With prior-year comparative totals)

	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 4,151,225	\$ 4,019,094
Accounts receivable:		
Customers	621,716	515,665
Interest	11,767	18,582
Taxes	7,282	11,646
Other	16,360	19,702
Inventory	170,419	144,882
Prepaid expenses	<u>30,645</u>	<u>32,011</u>
TOTAL CURRENT ASSETS	<u>5,009,414</u>	<u>4,761,582</u>
NONCURRENT ASSETS		
Restricted assets		
Construction advance receivable (Note 4b)	38,407	47,430
Investment in California Domestic Water Co., at cost	591	591
Capital assets (Note 3):		
Nondepreciable	2,404,542	1,867,927
Depreciable, net of accumulated depreciation	<u>12,659,327</u>	<u>12,944,092</u>
TOTAL NONCURRENT ASSETS	<u>15,102,867</u>	<u>14,860,040</u>
TOTAL ASSETS	<u>20,112,281</u>	<u>19,621,622</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension plan	225,162	228,835
Deferred amounts from OPEB	<u>114,769</u>	<u>16,079</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>339,931</u>	<u>244,914</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

June 30, 2020
(With prior-year comparative totals)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 456,823	\$ 488,026
Current portion of 1981 State loan payable (Note 4a)	57,198	55,877
Deposits:		
Customers	-	17,500
Accrued payroll	28,854	17,315
Accrued employee benefits	48,152	53,473
Unearned rental income	92,070	92,051
	<u>683,097</u>	<u>724,242</u>
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES		
Accrued employee benefits, net of current portion	99,079	74,173
1981 State loan payable, net of current portion (Note 4a)	179,849	237,046
Net pension liability (Note 6)	790,025	666,511
Total OPEB liability (Note 7)	1,436,692	1,243,182
	<u>2,505,645</u>	<u>2,220,912</u>
TOTAL LONG-TERM LIABILITIES		
TOTAL LIABILITIES	<u>3,188,742</u>	<u>2,945,154</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension plan	85,309	74,671
Deferred amounts from OPEB	405,009	461,182
	<u>490,318</u>	<u>535,853</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net investment in capital assets	14,826,822	14,519,096
Restricted - debt service	38,407	47,430
Unrestricted	1,907,923	1,819,003
	<u>16,773,152</u>	<u>16,385,529</u>
TOTAL NET POSITION	<u>\$ 16,773,152</u>	<u>\$ 16,385,529</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

For the year ended June 30, 2020
(With prior-year comparative totals)

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Water sales:		
Consumption	\$ 2,326,342	\$ 2,183,412
Readiness to serve	1,837,574	1,729,992
Water rights lease	24,769	26,572
Other	29,516	36,592
TOTAL OPERATING REVENUES	<u>4,218,201</u>	<u>3,976,568</u>
OPERATING EXPENSES		
Sources of supply	1,074,530	1,006,907
Depreciation	474,361	473,719
Administrative and general	1,727,894	1,690,095
Pumping	697,301	615,439
Transmission and distribution	683,228	514,994
Customer accounts	165,646	190,021
Water treatment	36,030	38,824
TOTAL OPERATING EXPENSES	<u>4,858,990</u>	<u>4,529,999</u>
OPERATING LOSS	<u>(640,789)</u>	<u>(553,431)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes and assessments	819,967	801,794
Investment income	67,139	62,235
Rental income	114,467	114,248
Oil royalties	13,600	13,084
Other, net	1,987	6,042
Interest on long-term debt	(5,218)	(6,293)
Gain (loss) on disposal of assets	(1,066)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,010,876</u>	<u>991,110</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	370,087	437,679
CAPITAL CONTRIBUTIONS	<u>17,536</u>	<u>-</u>
CHANGES IN NET POSITION	<u>387,623</u>	<u>437,679</u>
NET POSITION - BEGINNING OF YEAR	<u>16,385,529</u>	<u>15,947,850</u>
NET POSITION - END OF YEAR	<u>\$ 16,773,152</u>	<u>\$ 16,385,529</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2020
(With prior-year comparative totals)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,097,992	\$ 4,095,225
Payments to suppliers	(3,610,786)	(3,205,627)
Payments to employees	(612,579)	(617,939)
Other	1,987	6,042
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(123,386)</u>	<u>277,701</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from property taxes and assessments	824,331	813,434
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>824,331</u>	<u>813,434</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of utility and general plant assets, net	(727,878)	(699,506)
Principal paid on 1981 State loan payable	(55,876)	(54,589)
Interest paid on 1981 State loan payable	(5,218)	(6,293)
Proceeds from sale of capital assets	601	-
Capital contributions	17,536	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(770,835)</u>	<u>(760,388)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from rental activities	114,467	114,248
Interest earned on investments	73,954	54,735
Royalty income	13,600	13,084
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>202,021</u>	<u>182,067</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	132,131	512,814
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,019,094</u>	<u>3,506,280</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,151,225</u>	<u>\$ 4,019,094</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2020
(With prior-year comparative totals)

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (640,789)	\$ (553,431)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	474,361	473,719
Other	1,987	6,042
Changes in assets, deferred outflows of resources, liabilities, and deferred inflow of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(93,686)	111,460
Inventory	(25,537)	(48,299)
Prepaid expenses	1,366	18,265
Deferred outflows of resources from pension plan	3,673	113,483
Deferred outflows of resources from OPEB	(98,690)	(187)
Increase (decrease) in liabilities and deferred inflow of resources:		
Accounts payable and accrued liabilities	(31,203)	63,896
Customers deposits	(17,500)	16,000
Accrued payroll and employee benefits liabilities	31,124	18,584
Unearned rental income	19	353
Net pension liability	123,514	(53,091)
Total OPEB liability	193,510	(241,212)
Deferred inflows of resources from pension plan	10,638	(109,063)
Deferred inflows of resources from OPEB	(56,173)	461,182
	<u>517,403</u>	<u>831,132</u>
Total adjustments		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (123,386)</u>	<u>\$ 277,701</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity

The La Habra Heights County Water District (District) is a public entity organized as a County Water District under the County Water District Law (under the appropriate California Water Code Sections) on November 30, 1976. The District provides potable water service to an area encompassing the City of La Habra Heights and a portion of the unincorporated Los Angeles County Area. The District is operated under the direction of a five-member Board of Directors elected for staggered four-year terms by the citizens residing within the District's boundaries.

The District has the power under the law of a governmental taxing authority and is authorized to (1) receive a proportional share of 1% of the County of Los Angeles (County) ad valorem property tax, as determined by the County's Tax Assessor, and (2) assess taxes for the purpose of carrying on its operations and paying its general obligation bonds.

b. Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the basic financial statements.

c. Basis of Presentation

The accounts of the District are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District is subject to the application of all Governmental Accounting Standards Board Statements.

d. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflows related to pensions and OPEB equal to employer contributions made after the measurement date of the net pension liability and total OPEB liability.
- Deferred outflows related to pensions for differences between expected and actual experience, changes in assumptions, and changes in proportion and differences between employer contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred outflows from OPEB resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the plan.

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

- Deferred inflow related to pensions for differences between expected and actual experiences, changes in assumptions, and changes in proportion and differences between employer contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans' fiduciary net position. This amount is amortized over five years.
- Deferred inflow related to OPEB for differences between expected and actual experience and changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with OPEB through the plan.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. New Accounting Pronouncements

Current Year Standards

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance*, which was effective immediately. This Statement provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

In June 2020, GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

The requirements of these paragraphs did not impact the District.

Pending Accounting Standards

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future:

In June 2017, GASB issued Statement No. 87 – *Leases*. This statement requires 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 for leases with a term of more than 12 months. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For leases with a term of 12 months or less, lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, early application is encouraged.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. New Accounting Pronouncements (Continued)

Pending Accounting Standards (Continued)

In June 2018, GASB issued Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, early application is encouraged. The requirements of this Statement should be applied prospectively.

In June 2020, GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted.

g. Operating Revenues and Expenses

Operating revenues, such as charges for services (water sales) result from exchange transactions associated with the principal activity of the District. Nonoperating revenues, such as property taxes and assessments, rental income, and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

h. Budgetary Practices

Each year the District adopts a budget to assess its general operations. Budgets are prepared on the accrual basis of accounting. Expenses that exceed the budgeted totals are approved by the District’s Board. All annual appropriations lapse at fiscal year-end.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Cash and Cash Equivalents

The District invests cash in excess of its operating requirements primarily in the State of California Local Agency Investment Fund (LAIF). All invested funds are stated at fair value.

For purposes of the statements of cash flows, the District defines cash and cash equivalents as demand account balances, cash on hand and all cash deposited in LAIF. Together, these balances represent cash and investments, with maturities less than 90 days.

j. Restricted Assets

The District’s policy considers restricted assets as those amounts the use of which are legally restricted for such purposes as principal and interest payments by agreements.

k. Inventory

The District values its materials and supplies inventory at the lower of cost or market, using the average cost method.

l. Capital Assets and Depreciation

The District records capital assets that are purchased at historical cost, while contributed assets are recorded at acquisition value at the time received. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets retirements are removed from the accounts at cost, together with the related accumulated depreciation. Any gains or losses resulting from retirements are recorded as nonoperating revenues or expenses.

Capital assets owned by the District are depreciated on a straight-line method based on their estimated useful lives by asset classification. Estimated useful lives by asset classification are as follows:

Source of supply plant	30 years
Pumping equipment	25 years
Transmission and distribution plant	75 years
General plant	5 to 20 years

Expenditures which materially increase capital assets lives are capitalized, while costs of maintenance and repairs are charged to expense as incurred.

m. Capital Contributions

Capital contributions are composed of transmission and distribution plant assets that are constructed by the District or a third party and are paid for by developers or the District’s customers desiring services that require capital expenditures or capacity commitment. When these assets are constructed, they become part of the District’s transmission and distribution system and are depreciated on a straight-line method over 75 years. Capital contributions received during the year are recorded on the Statements of Revenues, Expenses and Changes in Net Position.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when vested.

o. Method Used to Record Bad Debts

The District has elected to record bad debts using the direct write-off method. Customers with overdue balances of four months or more are specifically written-off as uncollectible. Any differences between the direct write-off method and reporting an allowance for bad debts is not significant to the financial statements.

p. Property Taxes

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government.

For fiscal year 2020, the property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - February 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

q. Pensions

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

r. Estimates

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

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

2. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2020 and 2019 are reported in the accompanying Statement of Net Position as follows:

Financial Statement Classification:	June 30, 2020	June 30, 2019
Unrestricted:		
Cash and cash equivalents	<u>\$ 4,151,225</u>	<u>\$ 4,019,094</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
United States Treasury Obligations	5 years	None	None
Federal Agencies (United States Government Sponsored Agency Securities)	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Corporate Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

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 is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

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:

	Maturity 12 Months or Less	
	June 30, 2020	June 30, 2019
California Local Agency Investment Fund	\$ 3,564,144	\$ 2,990,189

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, the District's investment policy and the actual rating by Standard and Poor's, as of year-end for each investment type:

	Unrated	
	June 30, 2020	June 30, 2019
California Local Agency Investment Fund	\$ 3,564,144	\$ 2,990,189

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Other than LAIF, there are no investments in any one issuer that represents 5% or more of total District's investments as of June 30, 2020 and 2019.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (Continued)

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2020 and 2019, the bank balance of deposits were \$640,787 and \$1,054,985, respectively, which are insured by the Federal Deposit Insurance Company or collateralized as required by California law. The difference between the bank balances and carrying value is due to outstanding checks and deposits in transit.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices in active markets for similar assets, and Level 3 inputs are significant unobservable inputs.

The District's investments in LAIF are not subject to the fair value measurement hierarchy.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

3. CAPITAL ASSETS

Changes in capital assets and accumulated depreciation as of June 30, 2020 were as follows:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
Capital assets, not depreciated:				
Land	\$ 532,744	\$ -	\$ -	\$ 532,744
Water rights	1,309,491	299,000		1,608,491
Construction in progress	25,692	275,358	(37,743)	263,307
Total capital assets, not depreciated	<u>1,867,927</u>	<u>574,358</u>	<u>(37,743)</u>	<u>2,404,542</u>
Capital assets, being depreciated:				
Sources of supply	2,283,601	-	(1,089)	2,282,512
Pumping	1,625,878	-	-	1,625,878
Transmission and distribution	25,265,048	23,798	(7,926)	25,280,920
General	1,869,504	167,465	(58,914)	1,978,055
Total capital assets, being depreciated	<u>31,044,031</u>	<u>191,263</u>	<u>(67,929)</u>	<u>31,167,365</u>
Less accumulated depreciation for:				
Sources of supply	(1,257,816)	(79,348)	666	(1,336,498)
Pumping	(1,364,275)	(37,641)	-	(1,401,916)
Transmission and distribution	(13,963,993)	(286,949)	7,340	(14,243,602)
General	(1,513,855)	(70,423)	58,256	(1,526,022)
Total accumulated depreciation	<u>(18,099,939)</u>	<u>(474,361)</u>	<u>66,262</u>	<u>(18,508,038)</u>
Total capital assets, being depreciated, net	<u>12,944,092</u>	<u>(283,098)</u>	<u>(1,667)</u>	<u>12,659,327</u>
Capital assets, net	<u>\$14,812,019</u>	<u>\$ 291,260</u>	<u>\$ (39,410)</u>	<u>\$15,063,869</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

3. CAPITAL ASSETS (CONTINUED)

Changes in capital assets and accumulated depreciation as of June 30, 2019 were as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets, not depreciated:				
Land	\$ 532,744	\$ -	\$ -	\$ 532,744
Water rights	1,309,491	-	-	1,309,491
Construction in progress	50,581	576,960	(601,849)	25,692
Total capital assets, not depreciated	<u>1,892,816</u>	<u>576,960</u>	<u>(601,849)</u>	<u>1,867,927</u>
Capital assets, being depreciated:				
Sources of supply	2,283,601	-	-	2,283,601
Pumping	1,625,878	-	-	1,625,878
Transmission and distribution	24,633,784	632,265	(1,001)	25,265,048
General	1,777,859	92,130	(485)	1,869,504
Total capital assets, being depreciated	<u>30,321,122</u>	<u>724,395</u>	<u>(1,486)</u>	<u>31,044,031</u>
Less accumulated depreciation for:				
Sources of supply	(1,176,233)	(81,583)	-	(1,257,816)
Pumping	(1,326,633)	(37,642)	-	(1,364,275)
Transmission and distribution	(13,678,909)	(286,085)	1,001	(13,963,993)
General	(1,445,931)	(68,409)	485	(1,513,855)
Total accumulated depreciation	<u>(17,627,706)</u>	<u>(473,719)</u>	<u>1,486</u>	<u>(18,099,939)</u>
Total capital assets, being depreciated, net	<u>12,693,416</u>	<u>250,676</u>	<u>-</u>	<u>12,944,092</u>
Capital assets, net	<u>\$14,586,232</u>	<u>\$ 827,636</u>	<u>\$ (601,849)</u>	<u>\$14,812,019</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

4. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities payable at June 30, 2020 and 2019 with changes thereon:

	Balance July 1, 2018	Payments	Balance July 1, 2019	Payments	Balance June 30, 2020
1981 State loan payable	\$ 347,512	<u>\$ 54,589</u>	\$ 292,923	<u>\$ 55,877</u>	\$ 237,046
Less current portion	<u>(54,589)</u>		<u>(55,877)</u>		<u>(57,197)</u>
	<u>\$ 292,923</u>		<u>\$ 237,046</u>		<u>\$ 179,849</u>

a. 1981 State Loan Payable

In 1981, pursuant to the State of California Davis-Grunsky Act, the State of California loaned the District \$1,500,000 to finance the relining of the La Mirada Conduit (Conduit) and construction of Reservoir 2. The District entered into a Joint Facilities Agreement as of October 15, 1980 with Orchard Dale for the purpose of operating and maintaining the Conduit (see Note 9a). The State loan bears interest at 2.5% and matures in graduated annual amounts through 2024, while interest is due semiannually. The balance of deferred interest is repayable over the remaining life of the State loan in equal annual payments of \$3,065.

A summary of debt service for the District's outstanding 1981 State loan is as follows:

Year Ending June 30,	Principal	Deferred Interest (Reported as Principal)	Interest	Total
2021	\$ 54,132	\$ 3,065	\$ 5,620	\$ 62,817
2022	55,486	3,065	4,266	62,817
2023	56,873	3,065	2,879	62,817
2024	<u>58,295</u>	<u>3,065</u>	<u>1,457</u>	<u>62,817</u>
	<u>\$ 224,786</u>	<u>\$ 12,260</u>	<u>\$ 14,222</u>	<u>\$ 251,268</u>

b. Construction Advance Receivable

The District has entered into a construction agreement with Orchard Dale in which Orchard Dale is to reimburse the District for a portion of the debt service payments on the 1981 State loan. The amounts due as of June 30, 2020 and 2019 from Orchard Dale were \$38,407 and \$47,430, respectively.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

5. *EMPLOYEE-DEFERRED COMPENSATION PLAN*

For the benefit of its employees, the District established an eligible employee-deferred compensation plan in accordance with the Internal Revenue Code Section 457. Funds may be withdrawn by participants upon either termination of employment, retirement, death or an unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District makes matching contributions of 100% on the first 2% of compensation deferred by the plan. Employer contributions made to the deferred compensation plan totaled \$17,287 for the year ended June 30, 2020.

All plan assets are held in a trust fund to protect them from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Therefore, in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, deferred compensation plan assets are not reported in the accompanying financial statements.

6. *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, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and 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.

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 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) 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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

6. PENSION PLAN (CONTINUED)

a. General Information about the Pension Plan (Continued)

The Plan's provisions and benefits in effect at the measurement date ended June 30, 2019, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire date		
Benefit formula	2.0%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	6.91%	6.25%
Required employer contribution rates		
Normal cost rate	7.634%	6.842%
Payment of unfunded liability	\$ 32,863	\$ -

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	<u>\$ 790,025</u>

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, 2019, 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, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportionate share 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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

6. PENSION PLAN (CONTINUED)

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

The District's proportionate share of the net pension liability for the Plan as of the measurement dates ended June 30, 2018 and 2019 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2018	0.01769%
Proportion - June 30, 2019	0.01973%
Change - increase (decrease)	0.00204%

For the year ended June 30, 2020, the District recognized pension expense of \$251,374. At June 30, 2020, 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	\$ 113,548	\$ -
Differences between expected and actual experience	54,871	(4,251)
Change in assumptions	37,672	(13,355)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	19,071	(53,891)
Net differences between projected and actual earnings on plan investments	-	(13,812)
Total	<u>\$ 225,162</u>	<u>\$ (85,309)</u>

\$113,548 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 ending June 30, 2021. 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 Ending June 30,</u>	<u>Amount</u>
2021	37,180
2022	(10,276)
2023	(3,390)
2024	2,791
2025	-
Thereafter	-

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

6. PENSION PLAN (CONTINUED)

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

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The total pension liability was based on the following assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-age normal cost method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

(3) The less of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

Long-term Expected Rate of Return

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

6. PENSION PLAN (CONTINUED)

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

Long-term Expected Rate of Return (Continued)

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

The expected real rate of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

(b) An expected inflation of 2.0% used for this period

(c) An expected inflation of 2.92% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

6. PENSION PLAN (CONTINUED)

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

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, 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:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 1,580,530
Current Discount Rate	7.15%
Net Pension Liability	\$ 790,025
1% Increase	8.15%
Net Pension Liability	\$ 137,518

Pension Plan Fiduciary Net Position

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

- c. Payable to the Pension Plan

At June 30, 2020, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

7. OTHER POST-EMPLOYMENT BENEFITS

- a. Plan Description

The District provides post-employment health care benefits through a single-employer defined benefit plan. Specifically, the District provides health insurance for its retired employees in accordance with Board resolutions. Medical coverage is provided for retired employees who are age 60 or over and who have a minimum of 20 years service with the District. The District pays the premium for the retiree coverage. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The plan does not provide a publicly available financial report.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Employees Covered

As of the June 30, 2019 measurement date, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees or beneficiaries entitled to but not yet receiving benefits	-
Active employees	<u>10</u>
Total	<u><u>12</u></u>

b. Total OPEB Liability

The District’s OPEB liability of \$1,436,692 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Funding Policy	Pay-as-you-go-basis
Actuarial Assumptions:	
Discount Rate	3.13%
Projected Salary Increase	3.00%
Expected long term investment rate of return	Not applicable since the District had not established an irrevocable trust for pre-funding the OPEB as of measurement date
Medical Trend	5.9% for 2019 grading down to 5% for 2028 and later
Mortality Rates	Pre-retirement mortality rates based on the RP-2014 tables Post-retirement mortality rates based on the RP-2014 health annuitant mortality tables

The discount rate was based on a high-quality 20-year tax-exempt general obligation municipal bond yield or index rate. The municipal bond rate utilized was 3.13%.

Changes of Assumptions

The discount rate of 3.62% used for the June 30, 2018 measurement date was decreased to 3.13 % for the June 30, 2019 measurement date. The healthcare trend rate of 6% used in the June 30, 2018 measurement period was adjusted to 5.9% in 2019 decreasing to 5% in 2028.

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

c. Changes in the Total OPEB Liability

The change in total OPEB liability are as follows:

	Increase (Decrease)
	Total OPEB Liability
Balance at June 30, 2018	
(Measurement Date)	<u>\$ 1,243,182</u>
Changes in the Year:	
Service cost	53,903
Interest on the total OPEB liability	46,632
Differences between actual and expected experience	-
Changes in benefit terms	-
Changes in assumptions	110,974
Benefit payments	<u>(17,999)</u>
Net Changes	<u>193,510</u>
 Balance at June 30, 2019	
(Measurement Date)	<u>\$ 1,436,692</u>

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

The following presents the total OPEB liability of the District, calculated using the discount rate for the Plan, as well as what the District total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB Liability	<u>\$ 1,707,358</u>	<u>\$ 1,436,692</u>	<u>\$ 1,222,768</u>

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

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

	1% Decrease (4.9% decreasing to 4%)	Current Trend (5.9% decreasing to 5%)	1% Increase (6.9% decreasing to 6%)
Total OPEB Liability	<u>\$ 1,193,647</u>	<u>\$ 1,436,692</u>	<u>\$ 1,752,794</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

d. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$56,973. At June 30, 2020, 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
OPEB contributions subsequent to measurement date	\$ 16,406	\$ -
Differences between expected and actual experience	-	(170,788)
Changes in assumptions	98,363	(234,221)
Total	<u>\$ 114,769</u>	<u>\$ (405,009)</u>

\$16,406 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2021	(43,562)
2022	(43,562)
2023	(43,562)
2024	(43,562)
2025	(43,562)
Thereafter	(88,836)

e. Payable to the OPEB Plan

At June 30, 2020, the District had no outstanding amount of contributions to the OPEB plan as required for the year ended June 30, 2020.

8. COMMITMENTS AND CONTINGENCIES

a. 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. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

LA HABRA HEIGHTS COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

a. Risk Management (Continued)

At June 30, 2020, as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss - the District retains risk of loss up from \$500 to \$25,000, except for turbine and power generation equipment, which is \$50,000 (deductible amount); the Authority is self-insured up to \$100,000 and insurance coverage has been purchased to cover losses ranging from \$100,000 to \$500,000,000 limited to the insurable value of \$15,816,407.

General, Auto & Public Officials' Liability - Insured up to \$55,000,000 with no deductible subject to policy aggregate limits, except for terrorism, which is insured up to \$5,000,000, subsidence and lead, which are individually insured up to \$30,000,000, and mold, which is insured up to \$35,000,000; the Authority is self-insured up to \$5,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$5,000,000 to \$55,000,000.

Public Employee Fidelity Bond - Insured up to \$100,000 with a \$1,000 deductible; the Authority is self-insured up to \$100,000.

Workers' Compensation and Employer's Liability Insurance - Compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The Authority is self-insured to \$2 million and has purchased excess insurance to the statutory limit.

The District has not settled any claims that have exceeded insurance coverage in any of the past three fiscal years. An annual premium deposit is paid by the District. Actual annual premiums are to be determined utilizing a retrospective method.

b. Litigation

In the ordinary course of operations, the District is the subject of claims and litigation from outside parties. After consultation with its legal counsel, the District believes that an adequate provision has been made for the costs, if any, of the ultimate outcome of the legal proceedings through its self-insurance plan, such that these matters will not materially affect the District's financial condition.

c. Ground Lease

In December 2009, the District agreed to a twenty-five-year ground lease expiring in April 2034 with a \$15,000 annual base rent. In addition, there is a base rent adjustment determined every five years that is based on the consumer price index (CPI). For the period of May 2017 through April 2022 the base rent adjustment is \$95,037, resulting in a total of \$110,037 received by the District in fiscal year 2019-2020. The District will receive approximately \$110,000 annually through April 2022.

d. COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of an outbreak of a new strain of coronavirus (the "COVID-19 outbreak") and the risks that is posed to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

8. *COMMITMENTS AND CONTINGENCIES (CONTINUED)*

d. COVID-19 (Continued)

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the District's financial condition, liquidity, operations and workforce. The District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time; however, if the pandemic continues, it may have a material effect on the District's results of future operations and financial position in fiscal year 2021.

9. *AGREEMENTS*

a. Orchard Dale Water District

The District is party to a joint facilities agreement with the Orchard Dale Water District (Orchard Dale) for the purpose of operating and maintaining the Well Fields, La Mirada Conduit and the La Mirada Reservoir, a transmission and distribution system that carries water from the Well Fields to each water district's service area. The operating agreement under which the facilities were constructed required that each participant provide its own proportionate share of construction financing.

The District's proportionate share of construction and improvement costs for such jointly owned facilities is included in the appropriate category of utility and general plant assets.

The District incurs certain minimum operating costs on jointly owned facilities, whether or not it is able to take delivery of its proportionate share of annual water rights. Such expenses incurred are included as operating expenses in the accompanying statements of revenues, expenses and changes in net position.

In fiscal years 2019-2020 and 2018-2019, the District was reimbursed \$249,271 and \$173,574, respectively, for this agreement and the reimbursements have been applied against the related operating expenses in the accompanying statement of revenues, expenses and changes in net position.

b. Rowland Water District

The District is party to a water production and delivery agreement dated May 12, 2012 with the Rowland Water District (Rowland) for the purpose of assisting Rowland to access water rights in the Central Groundwater Basin of Los Angeles County (Central Basin). Rowland has acquired pumping rights in the Central Basin but has no facilities to produce water from Central Basin to Rowland's service area. The District has facilities to produce water from the Central Basin and is able to assist Rowland to produce water, pursuant to Rowland's water rights, and deliver the water to Rowland's water distribution system.

Subject to certain limitations as specified in the agreement, the District will convey to Rowland, groundwater from the Central Basin. The District will bill Rowland on a monthly basis for water delivery costs. Rowland will pay the District for transporting water, and the District's direct cost of production, energy costs associated with the delivery of the water to the delivery point, any other variable cost of production.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

Notes to Basic Financial Statements

June 30, 2020

9. AGREEMENTS (CONTINUED)

b. Rowland Water District (Continued)

Rowland will pay a wheeling charge that is \$50 per acre-foot until Rowland has amortized its capital costs. After Rowland has fully amortized its capital cost, the wheeling charge is \$75 per acre-foot. In addition, the District will share in the cost savings that Rowland realizes as a result of the District pumping and delivering water to Rowland from the Central Basin instead of Rowland purchasing water from other sources. In fiscal years 2019-2020 and 2018-2019, the District was reimbursed \$0 in both fiscal years for this agreement. As of June 30, 2020, the agreement was still in dispute.

10. SUBSEQUENT EVENTS

Events occurring after June 30, 2020 have been evaluated for possible adjustment to the financial statements or disclosure as of October 28, 2020, which is the date these financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

Miscellaneous

Fiscal year ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.00771%	0.00692%	0.00726%	0.00654%	0.02102%	0.02702%
Plan's proportionate share of the net pension liability	\$ 790,025	\$ 666,511	\$ 719,602	\$ 566,312	\$ 576,686	\$ 667,868
Plan's covered payroll	\$ 817,337	\$ 766,210	\$ 741,585	\$ 744,900	\$ 722,019	\$ 609,966
Plan's proportionate share of the net pension liability as a percentage of covered payroll	96.66%	86.99%	97.04%	76.03%	79.87%	109.49%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	75.26%	75.26%	73.31%	74.06%	86.30%	83.03%
Plan's proportionate share of aggregate employer contributions	\$ 210,794	\$ 188,093	\$ 170,453	\$ 150,102	\$ 125,678	\$ 88,356

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

Inflation was reduced from 2.75% to 2.5%.

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years*

Fiscal year ended	Miscellaneous					
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 113,548	\$ 94,317	\$ 73,246	\$ 83,935	\$ 69,955	\$ 61,068
Contributions in relation to the actuarially determined contributions	(113,548)	(94,317)	(73,246)	(83,935)	(369,955)	(61,068)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (300,000)	\$ -
Covered payroll	\$ 889,015	\$ 817,337	\$ 766,210	\$ 741,585	\$ 744,900	\$ 722,019
Contributions as a percentage of covered payroll	12.77%	11.54%	9.56%	11.32%	49.67%	8.46%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

	Entry age (1)					
Actuarial cost method	Market Value	15 Year Smoothed Market Method				
Amortization method						
Asset valuation method						
Inflation	2.625%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (2%@60), 52 years (2%@62)
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* - Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year end	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement date	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Total OPEB Liability:			
Service cost	\$ 53,903	\$ 73,499	\$ 59,254
Interest on total OPEB liability	46,632	46,184	43,498
Changes of benefit terms	-	174,350	-
Changes of assumptions	110,974	(299,191)	-
Differences between expected and actual experience	-	(218,164)	-
Benefit payments, including refunds of	(17,999)	(17,890)	(15,978)
Net Change in Total OPEB Liability	<u>193,510</u>	<u>(241,212)</u>	<u>86,774</u>
Total OPEB Liability - Beginning of Year	<u>1,243,182</u>	<u>1,484,394</u>	<u>1,397,620</u>
Total OPEB Liability - End of Year	<u>1,436,692</u>	<u>1,243,182</u>	<u>1,484,394</u>
Covered employee payroll	\$ 954,026	\$ 888,088	\$ 773,970
Total OPEB liability as percentage of covered employee payroll	150.59%	139.98%	191.79%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The discount rate of 3.62% used for the June 30, 2018 measurement date was decreased to 3.13 % for the June 30, 2019 measurement date. The healthcare trend rate of 6% used in the June 30, 2018 measurement period was adjusted to 5.9% in 2019 decreasing to 5% in 2028.

* Fiscal year 2018 was the first year of implementation; therefore, only three years are shown.

SUPPLEMENTARY INFORMATION

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES

For the year ended June 30, 2020
(With prior-year comparative totals)

	2020	2019
Sources of supply - purchased water	<u>\$ 1,074,530</u>	<u>\$ 1,006,907</u>
Depreciation	<u>474,361</u>	<u>473,719</u>
Administrative and General:		
Office salaries	244,518	225,271
Manager's salary	148,766	138,241
Insurance	267,235	282,228
Employee benefits	318,527	115,075
Vacation, sick leave and holidays	136,562	130,363
Professional services	62,635	31,695
Payroll taxes	73,681	69,050
OPEB expense	56,973	237,860
Maintenance - general plant	106,255	86,503
Office supplies and equipment	52,258	48,315
Utilities	47,857	47,011
Automobile service	40,415	59,716
Education and meetings	18,154	19,260
Dues	22,576	22,845
Legal services	75,181	111,459
Engineering expenses	26,234	28,350
Property taxes	5,786	3,757
Directors fees and election expenses	13,151	26,895
Miscellaneous	11,130	6,201
Total Administrative and General	<u>1,727,894</u>	<u>1,690,095</u>
Pumping:		
Supervision and maintenance	135,210	73,752
Purchased power	562,091	541,687
Total Pumping	<u>697,301</u>	<u>615,439</u>
Transmission and Distribution:		
Supervision, labor and expense	222,717	171,026
Maintenance - structures and plant	246,661	142,139
Joint facilities accounts	213,850	201,829
Total Transmission and Distribution	<u>683,228</u>	<u>514,994</u>
Customer accounts	<u>165,646</u>	<u>190,021</u>
Water treatment	<u>36,030</u>	<u>38,824</u>
TOTAL OPERATING EXPENSES	<u>\$ 4,858,990</u>	<u>\$ 4,529,999</u>