



WEST COUNTY WASTEWATER DISTRICT
Richmond, CA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2019

Prepared by:
Administrative Services Department

WEST COUNTY WASTEWATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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INTRODUCTORY SECTION

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December 4, 2019

To the Honorable Board of Directors and
Community of the West County Wastewater District:

State statutes require an annual audit by an independent certified public accountant. This report is published to fulfill that requirement for the year ended June 30, 2019.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Cost of internal control should not exceed anticipated benefits; therefore the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Cropper Accountancy Corporation, Certified Public Accountants, have issued an unmodified opinion on the West County Wastewater District's (District) financial statements for the year ended June 30, 2019. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements, complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE DISTRICT

The District (formerly the San Pablo Sanitary District) was organized on December 19, 1921 and reorganized under the Sanitary District Act of 1923. In 1978, the District changed its name to West Contra Costa County Sanitary District and in 1992 changed again to West County Wastewater District. The District has existed for 98 years for the purpose of protecting and serving the public health of the community and the environment by safely and responsibly collecting and treating wastewater for reuse.

The District is an independent Special District and is not financially responsible for any other governmental entity nor is a component unity of another governmental entity.

The District prepares a Two-Year Comprehensive Budget that is approved by the Board of Directors.

The District is located in the western section of Contra Costa County approximately 28 miles northeast of San Francisco and 12 miles north of Oakland. The District's service area encompasses 16.9 square miles all within Contra Costa County. Roughly 6.8 square miles (or 40% of the total) lie within the boundaries of the City of Richmond, 2.5 square miles (or 15% of the total) lie within the City of San Pablo, 0.4 square miles (or 2% of the total) lie within the City of Pinole and the remaining 7.2 square miles (or 43% of the total) are within unincorporated areas of Contra Costa County. The

District's service area is fairly hilly, typical of the California coastal region. The population of the District is approximately 102,000. The District contains approximately 38,000 parcels. The District is governed by a five member Board of Directors elected at large for four-year over-lapping terms. The President is elected by members of the Board, customarily for a one-year term of the office. The District's daily functions are administered by a General Manager who serves at the pleasure of the Board of Directors.

The District's operation includes wastewater collection, treatment, disposal, and reuse. The District also provided contract services to neighboring communities to maintain various local government facilities. Since February 1977, the District participates in the West County Agency (WCA), a joint powers authority, with the City of Richmond, and the Richmond Municipal Sewer District for the purpose of constructing and maintaining effluent and sludge disposal facilities.

The US Environmental Protection Agency, the California Regional Water Quality Control Board, the California Health Services Department, as well as other regulatory agencies provide the permits and standards that the District must meet in order to collect, treat, recycle, reuse, and dispose of wastewater.

LOCAL ECONOMY

The real estate economy for San Pablo is stabilized with the median home sale price in San Pablo at \$448,000, with roughly no increase compared to 2018. El Sobrante's median home sales prices have also stabilized at \$553,600. However, another city in the District, Richmond, saw a 1.7% increase in median home sales price at \$526,700.

The District's Board of Directors maintains sound fiscal policies and closely monitors expenses. The District's annual Environmental Quality (Sewer Use) Charge increased 11% to \$576 up per single family residence for Fiscal Year 2019. Even with this increase it remains one of the lowest among neighboring sanitary sewer providers.

LONG TERM PLANNING

Environmental Quality (Sewer Use) Charge revenues are the main source of revenue for the District. The District partially funds capital replacement costs through operating revenues. The District has established various reserves including; Insurance Fund Reserve, State Revolving Loan Fund Reserve, and Operating and Capital Reserves. The District's Board of Directors reviews reserve levels annually as part of the budget process to determine whether the levels established provide for the financial security required of a fiscally responsible local government.

In addition to the Environmental Quality (Sewer Use) Charge, other sources of revenues include; fees for new connections, permits and inspections, land leases, contract services, property taxes, and interest, any of which may be used to fund capital asset additions and replacements. The District has secured low interest loans and grants from the State Water Resources Control Board to provide funding for certain capital projects.

RELEVANT FINANCIAL POLICIES

A utility or other enterprise government agency is a self-supporting operation of commercial nature and the appropriate level of revenues and expenses is largely

determined by the demand for service. Depending on the timing and level of demand for service, the expenses will vary. Accordingly the District's budgetary controls are established at the levels of total estimated expenses.

MAJOR INITIATIVES

The District's mission is to protect public health and the San Francisco Bay by providing our communities with wastewater collection and treatment for reuse or disposal in an environmentally responsible, efficient and reliable manner.

The District adopted a 20-year District Wide Master Plan to address its infrastructure needs. The impact of the Master Plan will be felt in District operations, capital programs and rates for the next 30 years. The capital improvement plan is reviewed on a regular basis to ensure the plan reflects any changes in priorities, infrastructure needs or compliance requirements. In FY 2019 the Board of Directors approved an updated five-year capital improvement program at over \$71 million over five years that will upgrade infrastructure and facilities within the District.

AWARDS AND ACKNOWLEDGEMENT

In recognition of its outstanding work, the District has achieved Platinum and Gold awards from the National Association of Clean Water Agencies (NACWA) for 16 consecutive years in recognition of compliance with its National Pollutant Discharge Elimination System (NPDES) permit.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to West County Wastewater District for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2018. This was the 21st consecutive year that the District has been recognized for its financial reporting. In order to be awarded, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period on one year only. We believe that our current CAFR continued to meet the certificate of Achievements Program's requirement and we are submitting this CAFR to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the members of the Administrative Services Department. Management wishes to express its appreciation to all staff that assisted and contributed to the preparation of this report, especially, the District's Finance Supervisor, Dean Prater. Credit also must be given to the Board of Directors in the planning and implementation of the financial affairs of the District.

Respectfully submitted,


Lisa K. Malek-Zadeh
General Manager


Justin Lovell
Administrative Services Department Manager

The District received the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement award for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ending June 30, 2017 and 2018.



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**West County Wastewater District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

The District received the Government Finance Officers Association of the United States and Canada (GFOA) Distinguished Budget Presentation award for its biennial budget beginning July 1, 2017.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**West County Wastewater District
California**

For the Biennium Beginning

July 1, 2017

Christopher P. Morill

Executive Director

The District received the National Association of Clean Water Agencies (NACWA) Platinum 16 Peak Performance Award in recognition of sixteen years of complete and consistent National Pollutant Discharge Elimination System (NPDES) permit compliance.

Platinum 16



The National Association of Clean Water Agencies
is pleased to present this award to

West County Wastewater District, CA
Water Pollution Control Plant

in recognition of sixteen years of complete and consistent National
Pollutant Discharge Elimination System permit compliance


Adam Krantz, NACWA Chief Executive Officer


Date Issued



WEST COUNTY WASTEWATER DISTRICT

Mission Statement, Vision Statement, Core Values and Strategic Goals

Mission Statement

The mission of the West County Wastewater District is to protect the public health through the safe, responsible collection and treatment of wastewater to recover for reuse while promoting environmental stewardship for the West County Community.

Vision

The Vision Statement of the District creates and drives strategy and tactics identified in the District's Strategic Plan and is reviewed annual. It typically changes more frequently than the Mission Statement, to reflect the direction in which the Board of Directors wants to take the District over a five-year time horizon of the Strategic Plan. Through its Vision Statement, the District seeks to achieve the following:

To be an integrated partner to make our planet better for future generations

Core Values

The District's Core Values serve as a guidepost and framework for consistent decision making when the District is faced with options and alternatives. They are intended to be constant over the long term. The District currently uses the following Core Values for consistent decision making:

Service
Trust
Leadership
Collaboration
Accountability

Strategic Goals

Strategic goals of the District are a short statement of desired success. The goals are prepared by management and accepted by the Board. The goals will change from year-to-year when the annual assessment is made of the progress on each Strategic Element. The Strategic goals straddle the line between policy (Board responsibility) and implementation (management responsibility) and as such are a collaborative effort of both the Board and management. The District currently uses the following Strategic Goals:

- Embrace our obligations to the future by planning and preparing today.
- Recruit, develop and retain employees that embrace the District's Core Values and have a passion for the environment.
- Ensure all staff are properly trained and understand the standards upon which they are held accountable.
- Develop a communication strategy that enhances public perception and confidence in the services we provide.
- Become an environmental leader by being a zero-waste enterprise through maximizing our resource recovery and minimizing our environmental footprint.
- Promote financial policies and practices that support sustainability, integrity and responsible allocation.
- Responsibly manage infrastructure.
- Collaborate with local, regional and national partners to further the mission of the District
- Become a carbon negative enterprise by 2031.

**WEST COUNTY WASTEATER DISTRICT
Principal Officials and Management**

BOARD OF DIRECTORS

Harry Wiener
President

Sherry Stanley
Vice President

David Alvarado
Director

Cheryl Sudduth
Director

Cesar Zepeda
Director

Legal Counsel

Mr. Alfred A. Cabral
Pelletreau, Alderson and Cabral

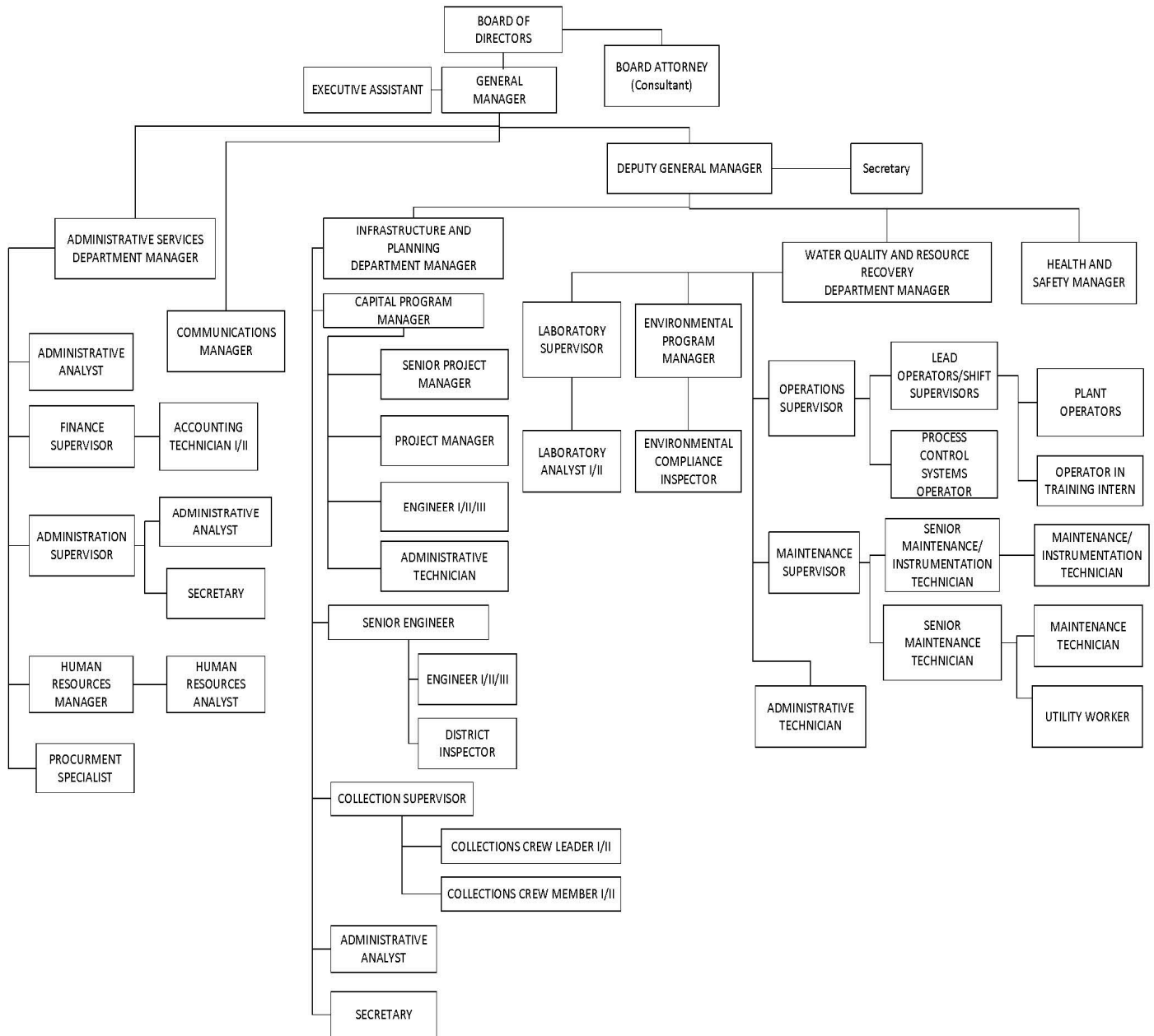
Management

Lisa Malek-Zadheh, General Manager
Andrew Clough, Deputy General Manager
Justin Lovell, Administrative Service Department Manager
Michael Savannah, Infrastructure & Planning Department Manager
Aaron Winer, Water Quality & Resource Recovery Department Manager

WEST COUNTY WASTEWATER DISTRICT

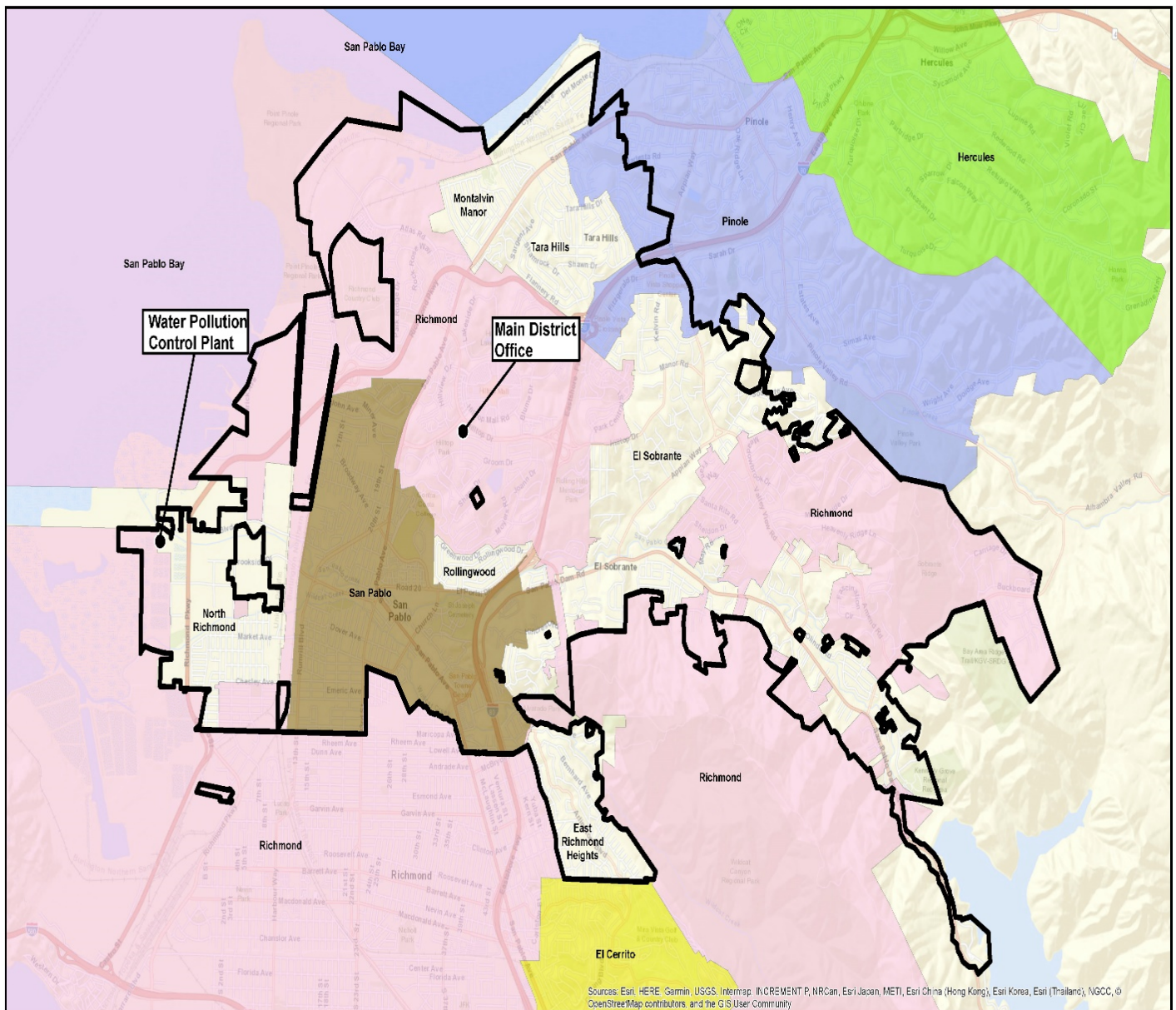
Organizational Structure Chart

July 1, 2019



WEST COUNTY WASTEWATER DISTRICT District Map

The District is located in the western section of Contra Costa County, approximately 28 miles northeast of San Francisco and 12 miles north of Oakland. The District's service area encompasses 16.9 square miles. Roughly 6.8 square miles lie within the boundaries of the City of Richmond, 2.5 square miles lie within the City of San Pablo, 0.4 square miles lie within the City of Pinole and the remaining 7.2 square miles are within the unincorporated areas of Contra Costa County. The District's service area is fairly hilly, typical of the California coastal region.



FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
West County Wastewater District
Richmond, California

We have audited the accompanying financial statements of the business-type activities of West County Wastewater District as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of West County Wastewater District as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 13 to the financial statements, in 2018 the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified in respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 – 26, the Schedule of the District's Proportionate Share of the Plan's Pension Liability and Schedule of The District's Contributions to the Pension Plan on page 63, Schedule of Changes in the Net OPEB Liability and Related Ratios on page 64, and Schedule of OPEB Contributions on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California

October 18, 2019

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WEST COUNTY WASTEWATER DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ending June 30, 2019

Management's Discussion and Analysis ("MD&A") is designed to focus on the current and prior year's activities, resulting changes, and currently known facts. It should be read in conjunction with the District's basic financial statements. The MD&A also provides information regarding the economic factors affecting the District and financial contact information.

FINANCIAL HIGHLIGHTS

- The District's overall financial position has improved during fiscal year 2019. The District had a net position balance of \$104.0 million at June 30, 2019. Total net position was comprised of net invested in capital assets of \$82.3 million, restricted for debt service of \$2.1 million, and unrestricted net position of \$19.6 million. Net position increased by \$7.5 million for fiscal year 2019 and \$7.1 million for fiscal year 2018.
-
- The District's total operating revenues for fiscal year 2019 were \$24.2 million and total operating expenses were \$20.1 million, resulting in operating income of \$4.1 million. This compares to operating income of \$2.1 million for fiscal year 2018 and \$2.6 million for fiscal year 2017.
- The District's non-operating revenues for fiscal year 2019 were \$3.0 million, primarily property taxes, redevelopment allocation, rental income, and investment earnings. This compares to \$2.0 million for fiscal year 2018 and \$1.4 million for fiscal year 2017. Non-operating expenses for fiscal year 2019 were \$451,000, consisting primarily of interest expense on loans. This compares to \$487,000 for fiscal year 2018, consisting of interest expense and loss on disposal of assets. This compares to \$109,000 for fiscal year 2017, which consisted primarily of the valuation allowance on the ex-General Manager advance.
- Capital contributions were \$809,000 for fiscal year 2019, comprised of State capital construction grants (\$355,000) and customer connection fees (\$454,000). This compares to capital contributions of \$3.4 million for fiscal year 2018, comprised of State capital construction grants (\$2.0 million) and customer connection fees (\$1.4 million). Capital contributions were \$7.9 million for fiscal year 2017, comprised of State capital construction grants (\$6.9 million) and customer connection fees (\$1.0 million).

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The comprehensive annual financial report consists of this MD&A, a series of basic financial statements (described below) and notes to those statements. These statements are organized so the reader can understand the District as a financial whole. The statements provide an increasingly detailed look at specific financial activities. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

BASIC FINANCIAL STATEMENTS

The District consists exclusively of one Enterprise (Business) Fund. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

WEST COUNTY WASTEWATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2019

Statement of Net Position: The Statement of Net Position is designed to report the available assets, deferred outflows, liabilities, deferred inflows, and net position for the District. Net Position is reported in three broad categories within the Statement of Net Position:

- Net investment in Capital Assets: This component of Net Position consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted: This component of Net Position consists of restricted assets; when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.
- Unrestricted: Consists of Net Position that does not meet the definition of "Net Investment in Capital Assets," or "Restricted."

Statement of Revenues, Expenses and Changes in Net Position: This statement is similar to an Income Statement and includes Operating Revenues and Expenses, and Non-Operating Revenue and Expenses. The focus of this Statement is the "Change in Net Position", which is similar to Net Income or Loss.

Statement of Cash Flows: This statement discloses net cash provided by, or used for, operating activities, non-capital financing activities, and from capital and related financing activities.

SUMMARY OF THE STATEMENT OF NET POSITION

The following table reflects the condensed statement of Net Position for the current and two preceding fiscal years. The District is engaged only in Business-Type Activities.

WEST COUNTY WASTEWATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2019

TABLE 1
Statement of Net Position

	2019	2018	2017	% Increase (Decrease) 2019 vs. 2018	% Increase (Decrease) 2018 vs. 2017
Assets:					
Current Assets	\$ 42,004,508	\$ 32,777,950	\$ 27,185,179	28.15%	20.57%
Capital Assets	116,917,945	116,926,919	105,000,168	-0.01%	11.36%
Other Non-Current Assets			670,721		-100.00%
Total Assets	158,922,453	149,704,869	132,856,068	6.16%	12.68%
Deferred Outflows of Resources	3,637,274	5,401,992	3,189,791	-32.67%	69.35%
Total Assets and Deferred Outflows of Resources	\$ 162,559,727	\$ 155,106,861	\$ 136,045,859	4.80%	14.01%
Liabilities:					
Current Liabilities	\$ 7,624,735	\$ 9,450,768	\$ 5,283,079	-19.32%	78.89%
Non-Current Liabilities	49,724,389	48,003,012	36,483,938	3.59%	31.57%
Total Liabilities	57,349,124	57,453,780	41,767,017	-0.18%	37.56%
Deferred Inflows of Resources	1,234,654	1,172,404	934,787	5.31%	25.42%
Net Position:					
Net Investment in Capital Assets	82,260,957	85,238,747	79,395,084	-3.49%	7.36%
Restricted	2,134,873	1,861,014	918,426	14.72%	
Unrestricted	19,580,119	9,380,916	13,030,545	108.72%	
Total Net Position	103,975,949	96,480,677	93,344,055	7.77%	3.36%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 162,559,727	\$ 155,106,861	\$ 136,045,859	4.80%	14.01%

Major Factors Affecting the Statement of Net Position

- 98% of current assets consist of cash and equivalents at June 30, 2019. Current assets increased by \$9.2 million from fiscal year 2018 to 2019, primarily due to receipts in excess of expenditures. Current assets increased by \$5.6 million from fiscal year 2017 to 2018, primarily due to receipts in excess of expenditures.
- See Table 3 for a discussion of Capital Asset changes and Table 4 for a discussion of loan activity.
- Deferred outflows of resources decreased by \$1.8 million from fiscal year 2018 to 2019 and increased by \$2.2 million from fiscal year 2017 to 2018, as a result of GASB 68 and 75 Deferred Outflows. This is discussed in the Notes 7 and 8 to Financial Statements.
- Current liabilities consist of accounts payable, accrued expenses, payroll related liabilities, and the current portion of loans and interest payable. Current liabilities decreased \$1.8 million from fiscal year 2018 to 2019 and increased \$4.2 million from fiscal year 2017 to 2018, primarily due to capital asset spending.

WEST COUNTY WASTEWATER DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ending June 30, 2019

- Non-current liabilities increased by \$1.7 million from fiscal year 2018 to 2019, primarily due to net loan borrowings and interest payable (\$ 2.7 million), less decreases in net pension, OPEB and compensated absences liabilities (\$1.0 million). Non-current liabilities increased from fiscal year 2017 to 2018 by \$11.5 million, primarily due to net loan borrowings (\$5.3 million) and the increase in net pension and OPEB liabilities (\$6.2 million).
- The District had outstanding debt of \$34.7 million at June 30, 2019 and \$31.7 million at June 30, 2018. See Table 4 for a discussion of loan activity.
- Net Position invested in capital assets decreased from fiscal year 2018 to 2019 by \$3.0 million due to the excess of net loan proceeds (\$3.0 million) and depreciation (\$4.6 million) over capital additions (\$4.6 million). Net Position invested in capital assets increased from fiscal year 2017 to 2018 by \$5.8 million due to capital spending (\$15.1 million) in excess of net loan proceeds (\$6.1 million and depreciation (\$3.2 million).
- Net Position unrestricted increased by \$10.2 million from fiscal year 2018 to 2019, due to the excess of revenue over expense of \$7.5 million, a decrease in net investment in capital assets of \$3.0 million, less a \$0.3 million increase in Restricted fund balance. Net Position unrestricted decreased by \$3.6 million from fiscal year 2017 to 2018, due to an increase in net investment in capital assets of \$5.9 million, increase in Restricted fund balance of \$0.9 million, GASB 75 prior period adjustment of \$3.9 million, less the excess of revenue over expense of \$7.1 million.

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Table 2 presents the revenues and expenses for the current and two preceding fiscal years. The District is engaged only in Business-Type Activities.

WEST COUNTY WASTEWATER DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ending June 30, 2019

TABLE 2
Statement of Revenues, Expenses, and Changes in Net Position

	2019	2018	2017	% Increase (Decrease) 2019 vs. 2018	% Increase (Decrease) 2018 vs. 2017
Revenues					
Operating revenues					
Sewer use charge	\$ 23,664,880	\$ 21,047,634	\$ 19,780,211	12.43%	6.41%
Inspection/permit fees	277,981	231,481	300,183	20.09%	-22.89%
Contract services	87,091	106,279	221,643	-18.05%	-52.05%
Other revenue	178,960	194,610	170,067	-8.04%	14.43%
Total operating revenues	24,208,912	21,580,004	20,472,104	12.18%	5.41%
Non-operating revenues					
Property taxes	1,192,713	1,082,059	1,057,151	10.23%	2.36%
Redevelopment allocation	322,356	312,470	160,943	3.16%	94.15%
Rental income	675,254	311,948	90,941	116.46%	243.02%
Investment earnings	817,201	298,133	61,556	174.11%	384.33%
Total non-operating revenues	3,007,524	2,004,610	1,370,591	50.03%	46.26%
Total revenues	27,216,436	23,584,614	21,842,695	15.40%	7.97%
Expenses					
Operating expenses	20,079,503	19,494,299	17,859,203	3.00%	9.16%
Non-operating expenses	450,741	487,276	109,312	-7.50%	
Total expenses	20,530,244	19,981,575	17,968,515	2.75%	11.20%
Increase (decrease) before capital contributions	6,686,192	3,603,039	3,874,180	85.57%	-7.00%
Capital contributions:					
State capital grants	354,885	2,034,947	6,966,498	-82.56%	
Connection fees	454,195	1,423,356	970,975	-68.09%	46.59%
Total capital contributions	809,080	3,458,303	7,937,473	-76.60%	-56.43%
Change in net position	7,495,272	7,061,342	11,811,653	6.15%	-40.22%
Net position, beginning	96,480,677	93,344,056	81,532,403	3.36%	14.49%
Prior period adjustments		(3,924,721)			
Net position, ending	\$ 103,975,949	\$ 96,480,677	\$ 93,344,056	7.77%	3.36%

Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Position:

- Total operating revenues for fiscal year 2019 were \$24.2 million and total operating expenses were \$20.1 million, resulting in operating income of \$4.1 million. This compares to fiscal year 2018 operating revenues of \$21.6 million and total operating expenses of \$19.5 million, resulting in operating income of \$2.1 million. Sewer Use Charge (Environmental Quality Charge) revenue increased \$2.6 million from fiscal year 2018 to 2019 and increased \$1.3 million from fiscal year 2017 to 2018 primarily due to the 11% per year rate increase.

WEST COUNTY WASTEWATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2019

- Operating expenses increased \$0.6 million from fiscal year 2018 to 2019, primarily due to increased professional and technical services, and increased \$1.6 million from fiscal year 2017 to 2018, primarily due to increased professional services, GASB 68/75 cost and chemicals.
- Non-operating revenues increased \$1.0 million from fiscal year 2018 to 2019 primarily due to increased investment earnings, rental income, and property taxes. Non-operating revenues increased \$0.6 million from fiscal year 2017 to 2018 primarily due to increase investment earnings, rental income, and redevelopment allocation.
- The District's non-operating expenses of \$0.5 million for fiscal year 2019 and 2018 consisted of loan interest expense and for 2018, loss on disposal of assets.
- Capital contributions were \$0.8 million for fiscal year 2019, comprised of State capital construction grants (\$355,000) and customer connection fees (\$454,000). This compares to \$3.4 million for fiscal year 2018, comprised of State capital construction grants (\$2.0 million) and customer connection fees (\$1.4 million) and \$7.9 million for fiscal year 2017, comprised of State capital construction grants (\$6.9 million) and customer connection fees (\$1.0 million).

SUMMARY OF CAPITAL ASSETS

Table 3 presents a summary of the District's capital assets as of June 30, 2019, 2018, and 2017. More detailed information on capital asset activity is provided in Note 4 to the financial statements.

TABLE 3
Summary of Capital Assets

	2019	2018	2017	% Increase (Decrease) 2019 vs. 2018	% Increase (Decrease) 2018 vs. 2017
Land	\$ 2,451,806	\$ 2,451,806	\$ 2,451,806	0.00%	0.00%
Construction in process	2,538,816	12,310,461	41,922,254	-79.38%	-70.64%
Sewage collection and treatment facilities	179,084,775	165,112,262	121,671,006	8.46%	35.70%
Equipment	5,677,394	5,668,557	5,490,716	0.16%	3.24%
Vehicles	3,343,337	2,992,278	2,631,732	11.73%	13.70%
Subtotal	193,096,128	188,535,364	174,167,514	2.42%	8.25%
Less accumulated depreciation	(76,178,183)	(71,608,445)	(69,167,346)	6.38%	3.53%
Total capital assets, net	\$ 116,917,945	\$ 116,926,919	\$ 105,000,168	-0.01%	11.36%

Capital Asset Highlights:

Capital Assets increased \$9,000 net, from fiscal year 2018 to 2019, due to net capital asset additions of \$4.6 million, less depreciation expense of \$4.6 million. Capital Assets increased \$12.0 million net, from fiscal year 2017 to 2018, due to net capital asset additions of \$15.5 million, less depreciation expense of \$3.2 million and retirements of \$0.3 million. Capital Assets increased \$22.4 million net, from fiscal year 2016 to 2017, due to capital asset additions of \$25.5 million, less depreciation expense of \$3.1 million. Additions for fiscal year 2019 were primarily water pollution control plant upgrades. Additions for fiscal years 2018 and 2017 additionally included sewer pipe replacements.

WEST COUNTY WASTEWATER DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ending June 30, 2019

SUMMARY OF DEBT OUTSTANDING

Table 4 presents a summary of the District's loans payable as of June 30, 2019, 2018, and 2017. More detailed information on loan activity is provided on Note 6 to the basic financial statements.

TABLE 4
Debt Outstanding

				% Increase (Decrease)	% Increase (Decrease)
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Current portion	\$ 1,696,526	\$ 1,456,929	\$ 741,900	16.45%	96.38%
Non-current portion	32,960,462	30,231,243	24,863,183	9.03%	21.59%
Loans Payable	\$ 34,656,988	\$ 31,688,172	\$ 25,605,083	9.37%	23.76%

Debt Highlights:

Loans payable increased \$3.0 million net from fiscal year 2018 to 2019, \$6.1 million net from fiscal year 2017 to 2018 and \$23.0 million net from fiscal year 2016 to 2017, due to State Water Control Resource loans used to fund capital asset additions. These loans will be repaid using the additional sewer use charge revenue resulting from rate increases. See Note 6 to the basic financial statements for future principal and interest payments on loans payable.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- While the District has the ability to raise the sewer service charge to meet its long-term needs, it does so conservatively to minimize the impact on rate payers.
- The Board of Directors approved 11% annual sewer service charge rate increases for fiscal years beginning July 1, 2015 through June 30, 2020 in order to fund \$330 million of maintenance and capital improvement costs identified by the 2012 20-Year District-Wide Master Plan.
- The District increased its sewer service charge per residence from \$422 to \$468 (+10.9%) effective July 1, 2016, to \$519 (+10.9%) effective July 1, 2017, and to \$576 (+11.0%) effective July 1, 2018, with an equivalent increase for commercial and industrial customers.
- In order to reduce the burden on rate payers in the near term, the District applied for low interest loans and grants from the California State Water Resources Control Board (SRF). The SRF approved \$9.4 million of grants and four loans totaling \$44.3 million with interest rates of 1.0% or 1.9%. Repayment of these loans is dependent on future rate increases.
- The District is committed to expending resources needed to treat wastewater to meet the environmental quality required by our permit. The District continues to identify areas to reduce spending and achieve efficiencies through its Strategic Plan and biennial budget process.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Justin Lovell, Administrative Services Manager, West County Wastewater District, 2910 Hilltop Drive, Richmond, CA 94806-1974 or jlovell@wcwd.org or (510) 222-6700

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BASIC FINANCIAL STATEMENTS

WEST COUNTY WASTEWATER DISTRICT

Statements of Net Position

June 30, 2019 and 2018

	2019	2018
Current assets		
Cash and investments (Note 2)	\$ 41,131,727	\$ 32,042,212
Accrued interest receivable	233,731	138,985
Accounts receivable, net (Note 3)	424,761	345,114
Materials and supplies inventory	106,600	155,119
Prepaid items	107,689	96,520
Total current assets	<u>42,004,508</u>	<u>32,777,950</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation (Note 4)	116,917,945	116,926,919
Total noncurrent assets	<u>116,917,945</u>	<u>116,926,919</u>
Total assets	<u>158,922,453</u>	<u>149,704,869</u>
Deferred outflows		
Other post-employment benefits (Note 7)	-	1,191,000
Pension (Note 8)	3,637,274	4,210,992
Total deferred outflows	<u>3,637,274</u>	<u>5,401,992</u>
Current liabilities		
Accounts payable and accrued expenses	4,900,103	6,826,684
Accrued salaries and benefits	139,387	148,984
Accrued interest payable	201,677	166,720
Current portions of long-term liabilities		
Compensated absences (Note 5)	687,042	851,451
Loans payable (Note 6)	1,696,526	1,456,929
Total current liabilities	<u>7,624,735</u>	<u>9,450,768</u>
Noncurrent liabilities		
Compensated absences (Note 5)	283,564	500,059
Loans payable (Note 6)	32,960,462	30,231,243
Net OPEB liability (Note 7)	3,803,000	4,334,000
Net pension liability (Note 8)	12,677,363	12,937,710
Total noncurrent liabilities	<u>49,724,389</u>	<u>48,003,012</u>
Total liabilities	<u>57,349,124</u>	<u>57,453,780</u>
Deferred inflows		
Other post-employment benefits (Note 7)	171,000	172,000
Pension (Note 8)	1,063,654	1,000,404
Total deferred inflows	<u>1,234,654</u>	<u>1,172,404</u>
Net position		
Net investment in capital assets (Note 9)	82,260,957	85,238,747
Restricted	2,134,873	1,861,014
Unrestricted	19,580,119	9,380,916
Total Net Position	<u>103,975,949</u>	<u>96,480,677</u>

The accompanying notes are an integral part of the financial statements

WEST COUNTY WASTEWATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the years ended June 30, 2019 and 2018

	2019	2018
Operating revenues		
Sewer use charge	\$ 23,664,880	\$ 21,047,634
Inspection/permit fees	277,981	231,481
Contract services	87,091	106,279
Other revenue	178,960	194,610
Total operating revenues	<u>24,208,912</u>	<u>21,580,004</u>
Operating expenses		
Sewage collection	2,197,399	4,236,904
Sewage treatment	7,197,285	7,298,501
Administration	5,718,627	4,553,523
Contract services	64,076	84,834
West County Agency	268,066	121,698
Total operating expenses before depreciation	<u>15,445,453</u>	<u>16,295,460</u>
Operating income before depreciation	8,763,459	5,284,544
Depreciation expense	<u>(4,634,050)</u>	<u>(3,198,839)</u>
Operating income	<u>4,129,409</u>	<u>2,085,705</u>
Non-operating revenues		
Property taxes	1,192,713	1,082,059
Redevelopment allocation	322,356	312,470
Rental income	675,254	311,948
Investment earnings	817,201	298,133
Interest expense	(450,324)	(390,000)
Other expense	(417)	(97,276)
Total non-operating revenues, net	<u>2,556,783</u>	<u>1,517,334</u>
Net income before capital contributions	<u>6,686,192</u>	<u>3,603,039</u>
Capital contributions		
State capital grants	354,885	2,034,947
Connection fees	454,195	1,423,356
Total capital contributions	<u>809,080</u>	<u>3,458,303</u>
Change in net position	7,495,272	7,061,342
Net position, beginning - as previously stated	96,480,677	93,344,056
Prior period adjustment - change in accounting principle (Note 13)	-	(3,924,721)
Net position, beginning - as restated	<u>96,480,677</u>	<u>89,419,335</u>
Net position, ending	<u><u>\$ 103,975,949</u></u>	<u><u>\$ 96,480,677</u></u>

The accompanying notes are an integral part of the financial statements

WEST COUNTY WASTEWATER DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash receipts from customers and others	\$ 22,877,938	\$ 25,773,342
Cash paid to employees for salaries and wages	(6,788,151)	(6,512,693)
Cash paid to vendors and suppliers for materials and services	(7,975,249)	(9,315,901)
Net cash provided by operating activities	<u>8,114,538</u>	<u>9,944,748</u>
Cash flows from non-capital financing activities		
Property taxes	1,192,713	1,082,059
Redevelopment allocation	322,356	312,470
Net cash provided by non-capital financing activities	<u>1,515,069</u>	<u>1,394,529</u>
Cash flows from capital and related financing activities		
Net acquisition and construction of capital assets	(4,625,076)	(15,125,590)
Proceeds from capital contributions	809,080	3,458,303
Principal paid	(1,541,717)	(958,527)
Interest paid	(415,367)	(264,434)
Proceeds from loan issue	4,510,533	7,041,615
Net cash provided by (used in) capital and related financing activities	<u>(1,262,547)</u>	<u>(5,848,633)</u>
Cash flows from investing activities		
Investment earnings	722,455	203,108
Net cash provided by investing activities	<u>722,455</u>	<u>203,108</u>
Net increase in cash and investments	9,089,515	5,693,752
Cash and investments, beginning of the year	32,042,212	26,348,460
Cash and investments, end of the year	<u>\$ 41,131,727</u>	<u>\$ 32,042,212</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,129,409	\$ 2,085,705
Depreciation	4,634,050	3,198,839
Rental income	675,254	311,948
Other revenue (expense), net	(417)	(97,276)
Effect of GASB 68 on net pension liability	376,621	940,780
Effect of GASB 75 on net OPEB liability	659,000	(246,000)
(Increase) decrease in assets		
Accounts receivable	(79,647)	211,601
Inventory	48,519	(7,105)
Prepays	(11,169)	(8,490)
Note receivable	-	307,000
(Decrease) increase in liabilities		
AP and accrued expenses	(1,926,581)	3,362,789
Accrued salaries and wages	(9,597)	19,110
Compensated absences	(380,904)	(134,153)
Net cash provided by operating activities	<u>\$ 8,114,538</u>	<u>\$ 9,944,748</u>

The accompanying notes are an integral part of the financial statements

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 1. Reporting Entity and Summary of Significant Accounting Policies

The West County Wastewater District (the District) is a sanitary district formed December 19, 1921 and operates pursuant to the provision of Section 6400 et. seq. of the State of California Health and Safety Code. The District is governed by an elected five-member Board of Directors that exercise the powers allowed by state statutes. The District is a stand-alone government entity and is not financially responsible to any other governmental unit or agency.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected government board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable for a component (West County Agency) in which (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

Basis of Presentation

The District's financial statements are prepared in conformity with U.S. GAAP. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses and recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Current assets and current liabilities are those amounts expected to be received in cash, consumed, utilized, or paid within the next fiscal year.

The financial statements (i.e. the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows) report information on all activities of the primary government. The District accounts for its 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.

In accordance with U.S. GAAP, the Statement of Net Position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Deferred Outflows of Resources represent outflows of resources (consumption of Net Position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of Net Position) that apply to future periods and that, therefore, will not be recognized as revenue until that time.

Cash and Cash Equivalents

Cash and equivalents include all highly liquid investments with maturity of 90 days or less and are carried at cost, which approximates fair value.

Investments

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

U.S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, are recorded at fair value in the Statement of Net Position and categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Receivables

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

Materials and Supplies Inventory

Inventories consist of expendable supplies and are valued at cost using a first-in, first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items.

Capital Assets

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at their estimate acquisition value of the date donated. The District policy has set the capitalization threshold for reporting capital assets at \$5,000, each of which must have an estimated useful life in excess of one year. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Sewage collection and treatment facilities	30 – 70 years
Equipment	4 – 10 years
Vehicles	3 – 15 years

Major outlays for capital assets are capitalized as construction in progress, and repairs and maintenance costs are expensed. Capitalized interest of \$169,828 was included in construction in progress for the year ended June 30, 2018.

Compensated Absences

The District has a policy whereby an employee can accumulate unused sick leave, compensatory time and vacation. Immediately prior to retirement, employees with a satisfactory record of service who otherwise qualify for retirement may be granted time off from the job, with full compensation, for a period of time not to exceed the amount of their accumulated sick leave time, or 60 work days, whichever is shorter. Management estimates that 90% of current employees will work until qualified for retirement and has accrued for 90% of accumulated sick leave balances, in addition to full accrual of accumulated compensatory time and vacation leave.

Net Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plans (see Note 8). For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

Net Other Post-Employment Benefits (OPEB) Liability (continued)

The following timeframes are used for OPEB reporting:

<u>PARS</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Valuation date	June 30, 2017	June 30, 2017
Measurement date	June 30, 2019	June 30, 2017
Measurement period	July 1, 2018 – June 30, 2019	July 1, 2016 – June 30, 2017

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (see Note 9). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Measurement period	July 1, 2017 – June 30, 2018	July 1, 2016 – June 30, 2017

Gains and losses related to changes in the total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Net Position

Net position represents the difference between all other elements in the Statement of Net Position and should be displayed in the following three components:

Net Investment in Capital Assets - This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

Net Position (continued)

Unrestricted - This component consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

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

Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Sewer Use Charge Revenue

Sewer use charges determined by the District are included on property tax bills of the County of Contra Costa (the County). Sewer use charge revenue is recorded as revenue when received due to the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the County. The Teeter Plan authorizes the Auditor-Controller of the County to allocate 100% of the service charges billed, but not yet paid or collected to the District. Late payment fees and interest are collected by the County and not remitted to the District.

The County remits sewer use charges and property tax revenue to the District in three installments as follows:

55%	remitted in December
40%	remitted in April
5%	remitted in June

Property Tax Revenue

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County bills and collects property taxes and remits them to the District according to a payment schedule established by the County.

The County is permitted by State law to levy property taxes at 1% of full market value (at time of purchase) and can increase the property tax rate by no more than 2% per year. The District receives a share of this basic tax levy proportionate to what it received during the years 1976 – 1978. Property taxes are recognized in the fiscal year in which the taxes have been levied. The County remits property tax revenues to the District on the same schedule as sewer use charge revenues.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

New Pronouncements

For the year ended June 30, 2018, the District implemented the following GASB pronouncements:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The implementation of this pronouncement resulted in a prior period adjustment to the financials. See Note 8 for more detailed information.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

New Pronouncements (continued)

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*. Specifically, 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 classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application was encouraged.

The implementation of this pronouncement did not have a significant impact on the District's financial statements.

GASB Statement No. 85, *Omnibus 2017*

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits [OPEB]).

The implementation of this pronouncement did not have a significant impact on the District's financial statements.

For the year ended June 30, 2019, the District implemented the following GASB pronouncements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

New Pronouncements (continued)

The objective of this Statement is to improve comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This statement will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

The implementation of this pronouncement did not have a significant impact on the District's financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

The implementation of this pronouncement did not have a significant impact on the District's financial statements.

Future Pronouncements

The following Governmental Accounting Standards Board Statements are effective in future years subsequent to the current financial reporting period:

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. 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.

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

Future Pronouncements (continued)

This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

The District is required to implement the provisions of this Statement for the fiscal year ending June 30, 2021 (effective for periods beginning after December 15, 2019). The District has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest costs incurred before the end of a construction period. Such interest cost covered in the scope of this Statement includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement.

The District is required to implement the provisions of this Statement for the fiscal year ending June 30, 2021 (effective for periods beginning after December 15, 2019). The District has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

The District is required to implement the provisions of this Statement for the fiscal year ending June 30, 2020 (effective for periods beginning after December 15, 2018). The District has not yet determined the impact of this Statement on the financial statements.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

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

Future Pronouncements (continued)

GASB Statement No. 91, *Conduit Debt Obligations* - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

The District is required to implement the provisions of this Statement for the fiscal year ended June 30, 2022 (effective for reporting periods beginning after December 15, 2020). Earlier application is encouraged. The District has not yet determined the impact of this Statement on the financial statements.

Note 2. Cash and Investments

A summary of cash, deposits and investments is as follows:

<u>Deposit or Investment</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Cash on-hand or in banks	\$ 2,571,570	\$ 3,204,510
Local Agency Investment Fund	<u>38,560,157</u>	<u>28,837,702</u>
Total Cash and Investments	<u>\$ 41,131,727</u>	<u>\$ 32,042,212</u>

Cash Deposits

At June 30, 2019 and 2018, the carrying amount of the District's demand deposits were \$2,571,570 and \$3,204,510, respectively, and the financial institution balances were \$2,959,878 and \$3,474,658, respectively. The differences of \$388,308 at June 30, 2019 and \$270,148 at June 30, 2018 represent outstanding checks, deposits-in-transit, and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities with a value of 110% of a district's deposits. California law also allows financial institutions to secure a district's deposits by pledging first trust deed mortgage notes having a value of at least 150% of a district's total deposits. The District's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 2. Cash and Investments (continued)

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agency of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of the local government.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of the depository institution, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that security transaction be conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2019, and 2018, none of the District's deposits and investments were exposed to disclosable custodial credit risk.

Investments

The District's investments were in the Local Agency Investment Fund (LAIF) as follows:

	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Maturity 12 months or Less</u>
June 30, 2019	Uncategorized	N/A	\$38,560,157	\$38,560,157
June 30, 2018	Uncategorized	N/A	\$28,837,702	\$28,837,702

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 2. Cash and Investments (continued)

Cash balances are invested to the extent possible pursuant to the District's approved Investment Policy and Guidelines and State Government Code. Investments are stated at the current fair value. Fair value information is provided as quoted on June 30, 2019 and 2018. The District does not plan to liquidate the investments before maturity and intends to hold the investments to maturity.

Authorized Deposits and Investments

The District is legally empowered by statute and resolution to invest in certificates-of-deposit and the California State Investment Pool – Local Agency Investment Fund (LAIF). The District's investment policy identifies other investment types that are authorized for the District to invest in under California Government Code.

Investment in State Investment Pool

The District is a voluntary participant in LAIF, which 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.

The District's investments with LAIF at June 30, 2019 and 2018 included a portion of the pool funds invested in structured notes and asset-backed securities.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

The District had \$38,560,157 and \$28,387,702 invested with LAIF at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018 LAIF had invested 1.77% and 2.67%, respectively, of the pooled investment funds in structured notes and asset-backed securities. The fair value factors of 1.001711790 and 0.998126869 were used to calculate the fair value of the investments in LAIF as of June 30, 2019 and 2018, respectively.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 2. Cash and Investments (continued)

Fair Value Measurement Input

The District categorized its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the above table.

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 fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in LAIF.

Note 3. Accounts Receivable

At June 30, accounts receivable is comprised of the following:

	<u>2019</u>	<u>2018</u>
EBMUD	\$ 270,344	\$171,329
Chevron	88,317	46,477
Pretreatment inspections	30,534	26,562
Service contracts	7,880	11,051
Permits and trucked waste	-	57,918
All other	65,370	60,118
Subtotal	462,445	373,455
Allowance for doubtful accounts	(37,684)	(28,341)
Net Accounts Receivable	<u>\$ 424,761</u>	<u>\$ 345,114</u>

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 4. Capital Assets

A summary of changes in capital assets and depreciation is as follows:

	Balance July 1, 2018	Additions	Deletions	Transfers from CIP	Balance June 30, 2019
Non-depreciable assets:					
Land	\$ 2,451,806	\$ -	\$ -	\$ -	\$ 2,451,806
Construction in progress	12,310,461	4,288,741	(83,291)	(13,977,095)	2,538,816
Total non-depreciable assets	14,762,267	4,288,741	(83,291)	(13,977,095)	4,990,622
Depreciable assets					
Sewage collection & treatment facilities	165,112,263	40,932	(45,515)	13,977,095	179,084,775
Equipment	5,668,556	8,838	-	-	5,677,394
Vehicles	2,992,278	415,371	(64,312)	-	3,343,337
Total depreciable capital assets	173,773,097	465,141	(109,827)	13,977,095	188,105,506
Less accumulated depreciation:					
Sewage collection & treatment facilities	(66,028,028)	(2,657,744)	-	82,095	(68,603,676)
Equipment	(4,197,087)	(1,475,912)	64,312	(82,095)	(5,690,782)
Vehicles	(1,383,330)	(500,394)	-	-	(1,883,725)
Total accumulated depreciation	(71,608,445)	(4,634,050)	64,312	-	(76,178,183)
Depreciable capital assets, net	102,164,652	(4,168,909)	(45,515)	13,977,095	111,927,323
Total capital assets, net	\$116,926,919	\$ 119,832	\$ (128,806)	\$ -	\$116,917,945
	Balance July 1, 2017	Additions	Deletions	Transfers from CIP	Balance June 30, 2018
Non-depreciable assets:					
Land	\$ 2,451,806	\$ -	\$ -	\$ -	\$ 2,451,806
Construction in progress	41,922,254	14,045,680	(241,853)	(43,415,620)	12,310,461
Total non-depreciable assets	44,374,060	14,045,680	(241,853)	(43,415,620)	14,762,267
Depreciable assets					
Sewage collection & treatment facilities	121,671,006	43,437	-	43,397,820	165,112,263
Equipment	5,490,716	247,316	(87,276)	17,800	5,668,556
Vehicles	2,631,732	1,170,250	(809,704)	-	2,992,278
Total depreciable capital assets	129,793,454	1,461,003	(896,980)	43,415,620	173,773,097
Less accumulated depreciation:					
Sewage collection & treatment facilities	(63,144,116)	(2,883,912)	-	-	(66,028,028)
Equipment	(4,077,066)	(204,640)	84,619	-	(4,197,087)
Vehicles	(1,946,164)	(110,287)	673,121	-	(1,383,330)
Total accumulated depreciation	(69,167,346)	(3,198,839)	757,740	-	(71,608,445)
Depreciable capital assets, net	60,626,108	(1,737,836)	(139,240)	43,415,620	102,164,652
Total capital assets, net	\$ 105,000,168	\$12,307,844	\$ (381,093)	\$ -	\$116,926,919

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 5. Accrued Compensated Absences

The accrued liabilities for compensated absences for the fiscal years ending June 30, 2019 and 2018 were as follows:

Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019	Current Portion	Non-current portion
<u>\$ 1,351,510</u>	<u>\$ 140,134</u>	<u>\$ (521,038)</u>	<u>\$ 970,606</u>	<u>\$ 687,042</u>	<u>\$ 283,564</u>

Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Current Portion	Non-current portion
<u>\$ 1,485,663</u>	<u>\$ 801,815</u>	<u>\$ (935,968)</u>	<u>\$ 1,351,510</u>	<u>\$ 851,451</u>	<u>\$ 500,059</u>

Note 6. Loans Payable

Summary changes in long-term debt balances for the years ended June 30, 2019 and 2018 were as follows:

Description	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year	Interest Payable
Loans Payable:						
SRF Loan – Phase I, Segment 1	\$ 1,357,817	\$ 25,799	\$ (89,775)	\$ 1,293,841	\$ 65,192	\$ 3,704
SRF Loan – Phase I, Segment 2	267,134	17,602	-	284,736	-	-
SRF Loan – Phase I, Segment 3	10,800,274	3,422,272	(466,993)	13,755,553	646,215	183,679
SRF Loan – Recycled Water Upgrades	19,262,947	1,044,860	(984,949)	19,322,858	985,119	14,294
Total loans payable	<u>\$ 31,688,172</u>	<u>\$ 4,510,533</u>	<u>\$ (1,541,717)</u>	<u>\$ 34,656,988</u>	<u>\$1,696,526</u>	<u>\$ 201,677</u>

Description	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year	Interest Payable
Loans Payable:						
SRF Loan – Phase I, Segment 1	\$ 1,420,601	\$ -	\$ (62,784)	\$ 1,357,817	\$ 63,976	\$ 3,887
SRF Loan – Phase I, Segment 2	269,510	-	(2,376)	267,134	-	-
SRF Loan – Phase I, Segment 3	8,961,501	1,845,231	(6,459)	10,800,274	466,993	154,931
SRF Loan – Recycled Water Upgrades	14,953,471	5,196,384	(886,909)	19,262,947	925,960	7,901
Total loans payable	<u>\$ 25,605,083</u>	<u>\$ 7,041,615</u>	<u>\$ (958,526)</u>	<u>\$ 31,688,172</u>	<u>\$1,456,929</u>	<u>\$ 166,720</u>

SRF Loan Payable – Wastewater Facility and Collection System Rehabilitation Project Phase I, Segment 1

In 2015, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a 20-year State Revolving Fund (SRF) loan in an amount not-to-exceed \$1,654,505 with an interest rate of 1.90% per annum for capital projects.

SRF Loan Payable - Wastewater Facility and Collection System Rehabilitation Project Phase I, Segment 2

In 2015, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a 20-year State Revolving Fund (SRF) loan in an amount not-to-exceed \$2,881,758 with an interest rate of 1.90% per annum for capital projects.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 6. Loans Payable (continued)

SRF Loan Payable - Wastewater Facility and Collection System Rehabilitation Project Phase I, Segment 3

In fiscal year 2015, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a 20-year State Revolving Fund (SRF) loan in an amount not-to-exceed \$14,593,521 with an interest rate of 1.90% per annum for capital projects. As of June 30, 2019, the District submitted a \$180,826 loan reimbursement request.

SRF Loan Payable - Recycled Water Reliability Upgrades

In fiscal year 2015, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a 20-year State Revolving Fund (SRF) loan in an amount not-to-exceed \$30,457,093 with an interest rate of 1.00% per annum for capital projects. As of June 30, 2019, the District submitted a \$1,986,632 loan reimbursement request.

Principal and interest payments on all loans are due and payable each year as follows:

Fiscal Year	Principal	Interest	Total
2020	1,696,526	438,347	2,134,873
2021	1,690,910	461,209	2,152,119
2022	1,714,083	438,037	2,152,120
2023	1,737,606	414,513	2,152,119
2024	1,761,486	390,633	2,152,119
Thereafter	26,056,377	2,749,889	28,806,266
Total	<u>\$ 34,656,988</u>	<u>\$ 4,892,628</u>	<u>\$ 39,549,616</u>

Note 7. Net Other Post-Employment Benefits

Plan Description

The District provides Other Post-Employment Benefits (OPEB) to employees who retire from the District and meet certain eligibility requirements. Eligibility is based upon active employee status of the District at the time of retirement, completion of at least five years of employment with the District, having achieved the age of 50 or older, eligibility to retire under CalPERS, and not receiving health care benefits from any other source other than Medicare or workers' compensation. The maximum employer's contribution is limited to \$1,500 per month, regardless of which coverage the retiree has selected. The contribution requirements of Plan members and the District are established, and may be amended by, the Board of Directors.

A minimum of ten years of CalPERS service is required to receive 50% of the defined benefit. Five of those ten years must be at the District. The benefit increases by 5% for every year above ten. At twenty years, the beneficiary is eligible for 100% of the benefit. An employee who performs twenty years of service solely with the District is eligible for 100% of the benefit, event if they do not retire within 120 days of separation from the District.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 7. Net Other Post-Employment Benefits (continued)

Plan Description (continued)

The District contracts with CalPERS to administer its retiree health benefits plan (an agent multiple-employer defined benefit plan). In 2009, the District created a trust with Public Agency Retirement Services (PARS) for the purpose of prefunding obligations for past services.

Employees Covered

The following current and former employees were covered by the benefit terms under the Plan:

Actuarial measurement date	<u>June 30, 2019</u>	<u>June 30, 2017</u>
Active employees	49	57
Inactive employees or beneficiaries currently receiving benefits	46	35
Inactive employees entitled to, but not yet receiving benefits	4	3
Total	<u>99</u>	<u>95</u>

Contributions

The District's plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining units. The annual contribution is based on the actuarially determined contribution. The District's contributions were as follows:

	Fiscal year ended <u>June 30, 2019</u>	Fiscal year ended <u>June 30, 2018</u>	Total Contributions June 30, 2019 Measurement Date
Cash contributions to the trust	\$ 798,000	\$ 821,000	\$ 1,619,000
Benefit payments	416,000	324,000	740,000
Implied subsidy	68,000	46,000	114,000
Total contributions	<u>\$ 1,282,000</u>	<u>\$ 1,191,000</u>	<u>\$ 2,473,000</u>

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WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 7. Net Other Post-Employment Benefits (continued)

Net OPEB Liability (continued)

The District's Net OPEB Liability was measured on June 30, 2019, using a measurement period of July 1, 2018 to June 30, 2019. Update procedures were used to roll forward the Total Pension Liability from the valuation date (June 30, 2017) to the measurement date (June 30, 2019), based on the following actuarial methods and assumptions:

Actuarial Assumptions:	<u>June 30, 2019 Measurement Date</u>
Actuarial valuation date	June 30, 2017
Contribution policy	District contributes full ADC
Discount rate	6.00% at June 30, 2019 6.00% at June 30, 2018
Expected long-term rate of return on investments	Expected District contributions projected to be sufficient to accumulate sufficient plan assets to pay all benefits from the trust
General inflation	2.75% per annum
Mortality, retirement, disability, termination	CalPERS 1997 – 2011 experience study
Mortality improvement	Mortality projected fully generational with Scale MP-2017
Medical trend	<ul style="list-style-type: none"> • Non-Medicare – 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 • Medicare – 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
Participation at retirement	100%
Medical plan at retirement	<ul style="list-style-type: none"> • Pre-Medicare: Anthem Select – 10%, Anthem Traditional – 10%, Health Net SmartCare – 10%, Kaiser – 60%, PERS Choice – 10% • Post-Medicare: Kaiser – 45%, UnitedHealthcare – 15%, PERSCare – 40%

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 7. Net Other Post-Employment Benefits (continued)

Changes in the OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Obligation (Asset) = (a) – (b)
Balance at June 30, 2017 (Measurement date June 30, 2016)	\$ 9,899,000	\$ 5,219,000	\$ 4,680,000
Changes recognized for the measurement period			
Service cost	686,000	-	686,000
Interest	626,000	-	626,000
Employer contributions	-	1,119,000	(1,119,000)
Net investment income	-	553,000	(553,000)
Benefit payments to retirees	(304,000)	(304,000)	-
Administrative expense	-	14,000	(14,000)
Net changes	1,008,000	1,354,000	(346,000)
Balance at June 30, 2018 (Measurement date June 30, 2017)	\$10,907,000	\$ 6,573,000	\$ 4,334,000
Changes recognized for the measurement period			
Service cost	1,435,000	-	1,435,000
Interest	1,430,000	-	1,430,000
Employer contributions	-	2,473,000	(2,473,000)
Net investment income	-	962,000	(962,000)
Benefit payments to retirees	(854,000)	(854,000)	-
Administrative expense	-	(39,000)	39,000
Net changes	2,011,000	2,542,000	(531,000)
Balance at June 30, 2019 (Measurement date June 30, 2019)	\$ 12,918,000	\$ 9,115,000	\$ 3,803,000

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

The following presents the Net OPEB Liability of the District if it were calculated using a discount rate that is one percentage point higher or lower than the current discount rate, for the measurement periods ended:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
June 30, 2019	\$ 5,506,000	\$ 3,803,000	\$ 2,407,000
June 30, 2017	\$ 5,811,000	\$ 4,334,000	\$ 3,121,000

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 7. Net Other Post-Employment Benefits (continued)

Sensitivity of the Net OPEB Liability to the Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point higher or lower than the current rate, for the measurement periods ended:

	1% Decrease	Current Trend Rate	1% Increase
	<hr/>	<hr/>	<hr/>
June 30, 2019	\$ 2,046,000	\$ 3,803,000	\$ 5,975,000
June 30, 2017	\$ 2,975,000	\$ 4,334,000	\$ 6,003,000

OPEB Plan Fiduciary Net Position

An audited financial report for the plan is prepared by the plan administrator, Public Agency Services (PARS) 4350 Von Karman Avenue, Ste. 100, Newport Beach, CA 94660-2043; (800) 731-7884.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

- Net difference between projected and actual earnings on OPEB plan investments – 5 years
- All other amounts – Expected average remaining service lifetime (EARSL)

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

For the years ended June 30, 2019 and 2018, the District recognized OPEB expense of \$659,000 and \$945,000, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Year Ended June 30, 2019</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
OPEB contributions subsequent to measurement date	\$ -	\$ -
Net differences between projected and actual earnings on plan investments	-	(171,000)
Total	<hr/> <u>\$ -</u>	<hr/> <u>\$ (171,000)</u>

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 7. Net Other Post-Employment Benefits (continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (continued)

<u>Year Ended June 30, 2018</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,191,000	\$ -
Net differences between projected and actual earnings on plan investments	-	(172,000)
Total	<u>\$ 1,191,000</u>	<u>\$ (172,000)</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as OPEB expense as follows:

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2020	(54,000)
2021	(54,000)
2022	(54,000)
2023	(9,000)

Note 8. Defined Benefit Pension Plan

General Information about the Pension Plans

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

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous members are calculated as a percentage of their plan based on the average final 36 months' compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based on the average final 36 months' compensation.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 8. Defined Benefit Pension Plan (continued)

General Information about the Pension Plans (continued)

The Plan provisions and benefits in effect at June 30, 2019 and 2018, are summarized as follows:

	Tier 1	PEPRA
Benefit formula	3.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50 – 67 & up	52 – 67 & up
Monthly benefits as a % of eligible compensation	2.0 – 3.0%	1.0 – 2.5%
Required employer contribution rates 2019	13.439%	6.842%
Required employer contribution rates 2018	12.698%	6.533%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan 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 years ended June 30, 2019, and 2018, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous		
	<u>Classic</u>	<u>PEPRA</u>	<u>Total</u>
Employer contributions 2019	\$ 1,222,675	\$ 109,415	\$ 1,332,090
Employer contributions 2018	\$ 1,112,488	\$ 93,629	\$ 1,206,117

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

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

	Miscellaneous Plan	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Proportionate share of the net pension liability	<u>\$ 12,677,363</u>	<u>\$ 12,937,710</u>

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 8. Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2018, 2017, and 2016 measurement dates was as follows:

	<u>PERF C</u>
Proportion – June 30, 2017	0.13046%
Proportion – June 30, 2018	0.13156%
Change in Proportions	<u>0.00110%</u>

	<u>PERF C</u>
Proportion – June 30, 2016	0.12760%
Proportion – June 30, 2017	0.13046%
Change in Proportions	<u>0.00286%</u>

For the years ended June 30, 2019, and 2018 the District recognized pension expense of \$1,708,711 and \$2,146,902, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Year Ended June 30, 2019		
Pension contributions subsequent to measurement	\$ 1,332,090	\$ -
Changes in assumptions	1,445,257	(354,205)
Differences between expected and actual experiences	486,408	(165,522)
Change in employer's proportion	310,845	-
Differences between the employer's contributions and employer's proportionate share of contributions	-	(543,927)
Net differences between projected and actual earnings on plan investments	62,674	-
Total	<u>\$ 3,637,274</u>	<u>\$ (1,063,654)</u>

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 8. Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Year Ended June 30, 2018		
Pension contributions subsequent to measurement	\$ 1,206,117	\$ -
Changes in assumptions	2,210,454	(168,549)
Differences between expected and actual experiences	17,815	(255,237)
Change in employer's proportion	276,692	(37,692)
Differences between the employer's contributions and employer's proportionate share of contributions	-	(538,656)
Net differences between projected and actual earnings on plan investments	499,914	-
Total	<u>\$ 4,210,992</u>	<u>\$ (1,000,404)</u>

Of the \$3,637,274 reported as deferred outflows of resources at June 30, 2019, \$1,332,090 related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending:	Deferred Outflows (Inflows) of Resources
2019	1,141,049
2020	629,213
2021	(414,706)
2022	(114,025)

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 8. Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment rate of Return	7.15% Net of Pension Plan investment and administrative expenses; includes inflation
Mortality Rate Table	Derived using CalPERS' membership data for all funds.
Post-retirement benefit increase	Contract COLA up to 2.5 % until Purchasing Power Protection allowance floor on purchasing power applies, 2.50% thereafter

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

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 period of projected benefit payments to determine the total pension liability.

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 ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 8. Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

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

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

Allocation by Asset Class	New Strategic Allocation	Real Return Years 1 – 10 (a)	Real Return Years 11+ (b)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	—	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	—	-0.92%
Total	<u>100.00%</u>		

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:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
June 30, 2019	\$ 20,118,323	\$ 12,677,363	\$ 6,534,972
June 30, 2018	\$ 20,223,999	\$ 12,937,710	\$ 6,903,074

Pension Plan Fiduciary Net Position

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

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 9. Net Investment in Capital Assets

Net investment in capital assets consisted of the following at June 30:

Description	2019	2018
Net investment in capital assets:		
Capital assets not being depreciated	\$ 4,990,622	\$ 14,762,267
Capital assets being depreciated, net	111,927,323	102,164,652
Loans payable – current	(1,696,526)	(1,456,929)
Loans payable – noncurrent	(32,960,462)	(30,231,243)
Total net investment in capital assets	<u>\$ 82,260,957</u>	<u>\$ 85,238,747</u>

Note 10. Deferred Compensation Savings Plan

For the benefit of its employees, The District participates in IRC No. 457 Deferred Compensation Programs. The purpose of these programs is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or 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.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The District is in compliance with this legislation. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors.

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

Note 11. Risk Management

The District participates in a joint venture under a joint power agreement (JPA) with the California Sanitation Risk Management Authority (CSRMA). The relationship between the District and CSRMA is such that CSRMA is not a component unit of the District for financial reporting purposes. CSRMA arranges for and provides workers' compensation, property, liability, errors, and omissions insurance for its member governmental entities. A board consisting of representatives from its member entities governs the CSRMA. The board controls the operations of the CSRMA including selection of management and approval of operating budgets, independent of any influence by the member agency beyond their representation on the board. Each member agency pays a premium commensurate with the level of coverage required and shares surpluses and deficits proportionate to their participation in the CSRMA. CSRMA has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements. Audited financial statements are available from the respective entity.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 11. Risk Management (continued)

In addition to the primary insurance types provided for through CSRMA listed above, the District also maintains commercial fidelity bonds, public employee dishonesty and public official bonds, to protect against employee theft or defalcation. Settled claims for CSRMA or the District's commercial fidelity bonds have not exceeded coverage in any of the past three fiscal years.

Note 12. Commitments and Contingencies

West County Agency – A Joint Venture

The West County Agency (the Agency) operates under a joint exercise of powers agreement (JPA) between the District, the City of Richmond, and the Richmond Municipal Sewer District. The Agency is a joint venture, which is legally separate from its participants and is governed by a Board of Directors appointed by and from the governing boards of its member agencies. The Board of Directors establishes the Agency's operating budget, which sets the contributions required from each of the member agencies and exercises the other powers specified in the JPA agreement. Expenses consist of pipeline and outfall operations and maintenance costs. Agency assets are held separately from the District's assets, and the Agency does not hold any significant assets or liabilities at this time. As of June 30, 2019, and 2018, the Agency had an unrestricted net position of \$97,884 and \$36,313, respectively. For more detail, the financial statements of the Agency are available at the District's office.

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. The District has reviewed all potential and pending litigation and provided for these liabilities and potential liabilities as part of accounts payable at June 30, 2019 and 2018.

WEST COUNTY WASTEWATER DISTRICT
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

Note 13. Prior Period Adjustment, Change in Accounting Principle

As discussed in Note 1 and Note 8, the implementation of GASBS No. 75 resulted in a prior period adjustment at June 30, 2018, which decreased beginning net position as follows:

Net Position – July 1, 2017, as previously reported	\$ 93,444,056
Prior Period Adjustment	<u>(3,924,721)</u>
Net Position – July 1, 2017, as restated	<u><u>\$ 89,419,335</u></u>

Note 14. Subsequent Events

Management has evaluated subsequent events through the date of the audit opinion, which is the date on which the financial statements were available to be issued. No events occurred which are material to these financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

WEST COUNTY WASTEWATER DISTRICT
Required Supplementary Information
June 30, 2019

Schedule of Proportionate Share of Net Pension Liability
Last 10 Years¹

	Fiscal Year End June 30,				
	2019	2018	2017	2016	2015
Measurement date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of net pension liability	0.131560%	0.130457%	0.127600%	0.120987%	0.116172%
Proportionate share of the net pension liability	\$ 12,677,363	\$ 12,937,710	\$ 11,041,346	\$ 8,304,443	\$ 7,228,755
Covered payroll	\$ 6,127,535	\$ 5,941,774	\$ 5,722,480	\$ 5,320,757	\$ 4,275,865
Proportionate share of the net pension liability as a percentage of covered payroll	206.89%	217.74%	192.95%	156.08%	169.06%
Plan's fiduciary net position as a percentage of the Plan's total pension liability	75.26%	73.31%	74.06%	78.40%	83.03%

Schedule of Pension Plan Contributions
Last 10 Years¹

Fiscal year ended	2019	2018	2017	2016	2015	2014
Contractually required contributions (actuarially determined)	\$ 1,332,090	\$ 1,206,117	\$ 1,145,214	\$ 978,212	\$ 808,084	\$ 809,429
Contributions in relation to actuarially determined contributions ²	(1,332,090)	(1,206,117)	(1,145,214)	(978,212)	(808,084)	(809,429)
Contribution deficiency (excess)	-	-	-	-	-	-
Covered payroll	\$ 5,637,238	\$ 6,127,335	\$ 5,941,774	\$ 5,722,480	\$ 5,320,757	\$ 4,275,865
Contributions as a percentage of covered payroll	23.63%	19.68%	19.27%	17.09%	15.19%	18.93%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable. This required supplementary information is intended to present information for ten years. Additional years' information will be presented as it becomes available.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

WEST COUNTY WASTEWATER DISTRICT
Schedule of Changes in the Net OPEB Liability and Related Ratios
for the Measurement Period Ended June 30, 2018

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 1,435,000	\$ 686,000
Interest on the OPEB liability	1,430,000	626,000
Benefits paid to retirees	<u>(854,000)</u>	<u>(304,000)</u>
Net change in total OPEB liability	2,011,000	1,008,000
Total OPEB Liability - beginning	<u>10,907,000</u>	<u>9,899,000</u>
Total OPEB Liability - ending (a)	<u><u>\$ 12,918,000</u></u>	<u><u>\$ 10,907,000</u></u>
 Plan Fiduciary Net Position		
Employer contributions	\$ 2,473,000	\$ 1,119,000
Net investment income	962,000	553,000
Benefits paid to retirees	(854,000)	(304,000)
Administrative expense	<u>(39,000)</u>	<u>(14,000)</u>
Net change in plan fiduciary position	2,542,000	1,354,000
Plan fiduciary net position- beginning	<u>6,573,000</u>	<u>5,219,000</u>
Plan fiduciary net position- ending (b)	<u><u>\$ 9,115,000</u></u>	<u><u>\$ 6,573,000</u></u>
 Net OPEB liability- ending (a) - (b)	<u><u>\$ 3,803,000</u></u>	<u><u>\$ 4,334,000</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	70.56%	60.26%
 Covered payroll	\$ 6,318,000	\$ 6,590,000
 Net OPEB liability as a percentage of covered payroll	60.19%	65.77%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed, up to 10 years, as information becomes available.

WEST COUNTY WASTEWATER DISTRICT
Schedule of OPEB Contributions
Last Ten Fiscal Years¹

Fiscal Year Ended June 30,	2019	2018
Actuarially determined contributions (ADC)	\$ 1,118,000	\$ 962,000
Contributions in relation to the ADC	(1,282,000)	(1,191,000)
Contribution deficiency (excess)	\$ (164,000)	\$ (229,000)
 Covered-employee payroll	 6,318,000	 6,625,000
Contributions as a percentage of covered-employee payroll	20.29%	17.98%

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were selected by the District after consultation with the actuary.

¹Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed, up to 10 years, as information becomes available

Method and assumptions used to determine contribution:

Valuation date	June 30, 2016
Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Amortization Method	Level percent of payroll with payroll increasing 3.5% per year
Amortization Period	21-year fixed period for 2018/19
Asset valuation method	Market value of assets
Discount rate	6.25%
General inflation	3.00%
Medical trend	Non-Medicare - 7.0% for 2018, decreasing to an ultimate rate of 5.0% in 2023 Medicare - 7.2% for 2018, decreasing to an ultimate rate of 5.0% in 2023
Mortality	CalPERS 1997-2011 experience study
Mortality Improvement	Mortality projected fully generational with Scale MP-2014, modified to converge to ultimate rates in 2022

STATISTICAL INFORMATION

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WEST COUNTY WASTEWATER DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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WEST COUNTY WASTEWATER DISTRICT STATISTICAL SECTION - INTRODUCTION

This section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the District's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial position has changed over time.

Revenue Capacity

These schedules contain trend information to help the reader assess the District's most significant revenue sources.

Debt Capacity

This schedule contains trend information to help the reader assess the District's debt burden and its ability to issue additional debt in the future.

Demographic & Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

Operating Information

These schedules contain trend information about the District's operations and resources to help the reader in using the District's financial report to understand and assess its economic condition.

FINANCIAL TRENDS

WEST COUNTY WASTEWATER DISTRICT CHANGES IN NET POSITION AND STATEMENT OF NET POSITION Last Ten Fiscal Years

Change in Net Position	2019	2018	2017	2016	2015
<u>Operating revenues:</u>					
Sewer use charge	\$ 23,664,880	\$ 21,047,634	\$ 19,780,211	\$ 17,290,831	\$ 15,650,703
Inspection/permit fees	277,981	231,481	300,183	248,888	316,476
Contract services	87,091	106,279	221,643	300,737	329,339
Other revenue	178,960	194,610	170,067	221,698	25,302
Total operating revenues	24,208,912	21,580,004	20,472,104	18,062,154	16,321,820
<u>Operating expenses:</u>					
Sewage collection	2,197,399	4,236,904	3,783,288	3,815,139	3,768,123
Sewage treatment	7,197,285	7,298,501	6,784,087	5,976,699	5,704,464
Administration	5,718,627	4,553,523	3,899,443	2,631,540	2,740,638
Contract services	64,076	84,834	147,060	272,421	303,888
West County Agency	268,066	121,698	174,212	148,541	107,463
Depreciation expense	4,634,050	3,198,839	3,071,113	3,119,615	3,222,967
Total operating expenses	20,079,503	19,494,299	17,859,203	15,963,955	15,847,543
Operating Income (loss)	4,129,409	2,085,705	2,612,901	2,098,199	474,277
<u>Non-operating revenues (expenses):</u>					
Property taxes	1,192,713	1,082,059	1,057,151	977,876	900,157
Redevelopment allocation	322,356	312,470	160,943	141,994	215,512
Rental income	675,254	311,948	90,941	353,536	258,827
Investment earnings	817,201	298,133	61,556	70,451	43,743
Interest expense	(450,324)	(390,000)			
Other revenue (expense), net	(417)	(97,276)	(109,312)		(2,275,124)
Total non-operating revenues (expenses), r	2,556,783	1,517,334	1,261,279	1,543,857	(856,885)
Net income before capital contributions	6,686,192	3,603,039	3,874,180	3,642,056	(382,608)
<u>Capital contributions:</u>					
State capital grants	354,885	2,034,947	6,966,498		
Connection fees	454,195	1,423,356	970,975	453,178	816,533
Contributed sewer lines					
Total capital contributions	809,080	3,458,303	7,937,473	453,178	816,533
Change in net position	7,495,272	7,061,342	11,811,653	4,095,234	433,925
<u>Net position</u>					
Beginning of year	96,480,677	93,344,056	81,532,403	77,437,169	86,070,895
Prior period adjustments		(3,924,721)			(9,067,651)
Net Position - End of year	\$ 103,975,949	\$ 96,480,677	\$ 93,344,056	\$ 81,532,403	\$ 77,437,169
<u>Net position</u>					
Invested in Capital Assets	\$ 82,260,957	\$ 85,238,747	\$ 79,395,085	\$ 80,006,751	\$ 67,486,623
Restricted	\$ 2,134,873	\$ 1,861,014	\$ 918,426		
Unrestricted	19,580,119	9,380,916	13,030,545	1,525,652	9,950,546
Total Net Position	\$ 103,975,949	\$ 96,480,677	\$ 93,344,056	\$ 81,532,403	\$ 77,437,169

Source: West County Wastewater District Audited Financial Statements
Continued on Page 72

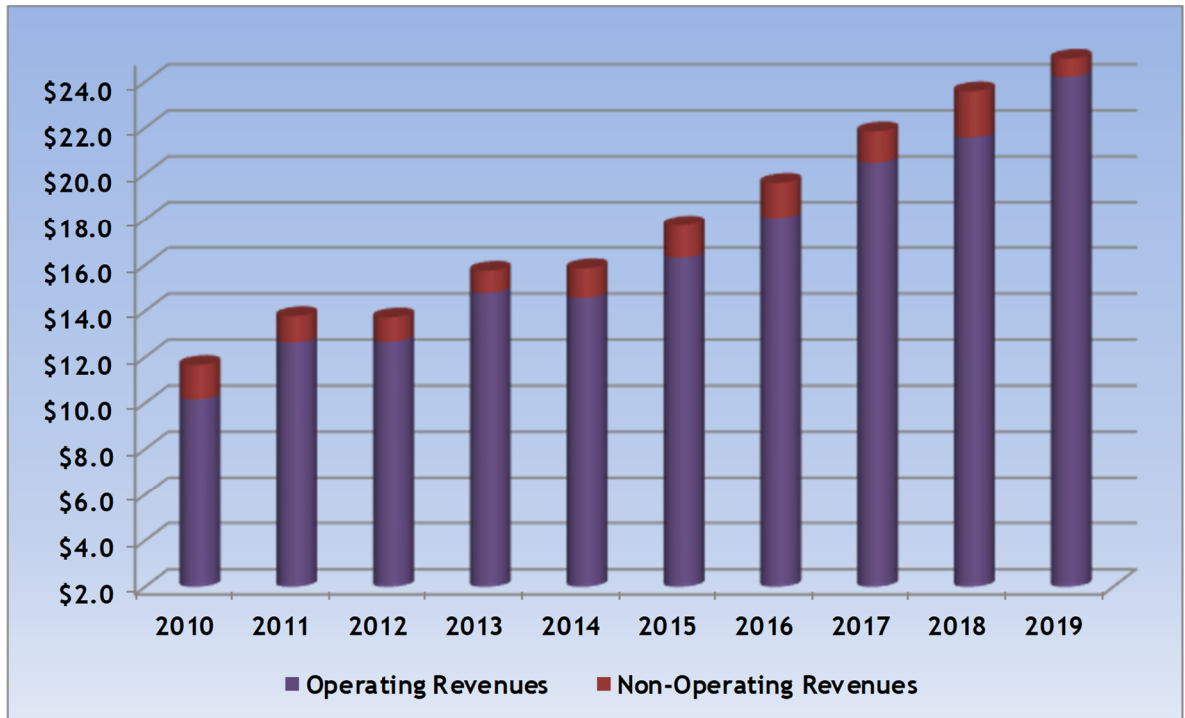
WEST COUNTY WASTEWATER DISTRICT
CHANGES IN NET POSITION AND STATEMENT OF NET POSITION
Last Ten Fiscal Years (continued)

Change in Net Position	2014	2013	2012	2011	2010
<u>Operating revenues:</u>					
Sewer use charge	\$ 14,038,949	\$ 13,854,746	\$ 12,239,921	\$ 12,182,304	\$ 9,762,875
Inspection/permit fees	192,139	189,166	45,645	46,062	143,275
Contract services	316,961	551,075	332,037	339,517	134,890
Other revenue	24,182	194,429	45,097	64,979	117,759
Total operating revenues	14,572,231	14,789,416	12,662,700	12,632,862	10,158,799
<u>Operating expenses:</u>					
Sewage collection	3,639,837	3,372,341	2,908,773	3,176,367	2,847,920
Sewage treatment	5,208,478	6,798,874	5,712,477	5,940,831	6,023,821
Administration	2,868,589	2,935,722	2,554,171	2,515,705	2,713,479
Contract services	269,874	474,623	287,977	239,973	55,756
West County Agency	133,670	172,391	105,041	148,273	91,085
Depreciation expense	2,940,249	2,921,783	2,735,155	2,856,717	2,814,261
Total operating expenses	15,060,697	16,675,734	14,303,594	14,877,866	14,546,322
Operating Income (loss)	(488,466)	(1,886,318)	(1,640,894)	(2,245,004)	(4,387,523)
<u>Non-operating revenues (expenses):</u>					
Property taxes	790,139	749,228	737,902	834,524	100,077
Redevelopment allocation	120,307	23,864	70,857		
Rental income	341,007	155,448	199,974	246,948	170,448
Investment earnings	34,712	30,257	49,106	64,645	940,733
Other revenue (expense), net			(256,871)	(108,804)	286,370
Total non-operating revenues (expenses), net	1,286,165	958,797	800,968	1,037,313	1,497,628
Net income before capital contributions	797,699	(927,521)	(839,926)	(1,207,691)	(2,889,895)
<u>Capital contributions:</u>					
State capital grants					
Connection fees	202,478	167,916	192,636	1,068,927	417,696
Contributed sewer lines					541,844
Total capital contributions	202,478	167,916	192,636	1,068,927	959,540
Change in net position	1,000,177	(759,605)	(647,290)	(138,764)	(1,930,355)
Net position					
Beginning of year	85,070,718	85,830,323	86,477,613	86,616,377	88,546,732
Prior period adjustments					
Net Position - End of year	\$ 86,070,895	\$ 85,070,718	\$ 85,830,323	\$ 86,477,613	\$ 86,616,377
Net Position					
Invested in Capital Assets	\$ 70,302,862	\$ 69,404,267	\$ 69,725,812	\$ 69,663,380	\$ 68,847,559
Unrestricted	15,768,033	15,666,451	16,104,511	16,814,233	17,768,818
Total Net Position	\$ 86,070,895	\$ 85,070,718	\$ 85,830,323	\$ 86,477,613	\$ 86,616,377

Source: West County Wastewater District Audited Financial Statements
Continued from Page 71

WEST COUNTY WASTEWATER DISTRICT
REVENUES BY TYPE
Last Ten Fiscal Years

Combined Revenues (in millions of dollars)



Source: West County Wastewater District Audited Financial Statements

WEST COUNTY WASTEWATER DISTRICT
REVENUES BY TYPE
Last Ten Fiscal Years

OPERATING REVENUES

FYE June 30	Sewer Use Charge	Inspection/ Permit fees	Contract Services	Other Revenue	Total Operating
2010	9,762,875	143,275	134,890	117,759	10,158,799
2011	12,182,304	46,062	339,517	64,979	12,632,862
2012	12,239,921	45,645	332,037	45,097	12,662,700
2013	13,854,746	189,166	551,075	194,429	14,789,416
2014	14,038,949	192,139	316,961	24,182	14,572,231
2015	15,650,703	316,476	329,339	25,302	16,321,820
2016	17,290,831	248,888	300,737	221,698	18,062,154
2017	19,780,211	300,183	221,643	170,067	20,472,104
2018	21,047,634	231,481	106,279	194,610	21,580,004
2019	23,664,880	277,981	87,091	178,960	24,208,912

Source: West County Wastewater District Audited Financial Statements

NON-OPERATING REVENUES

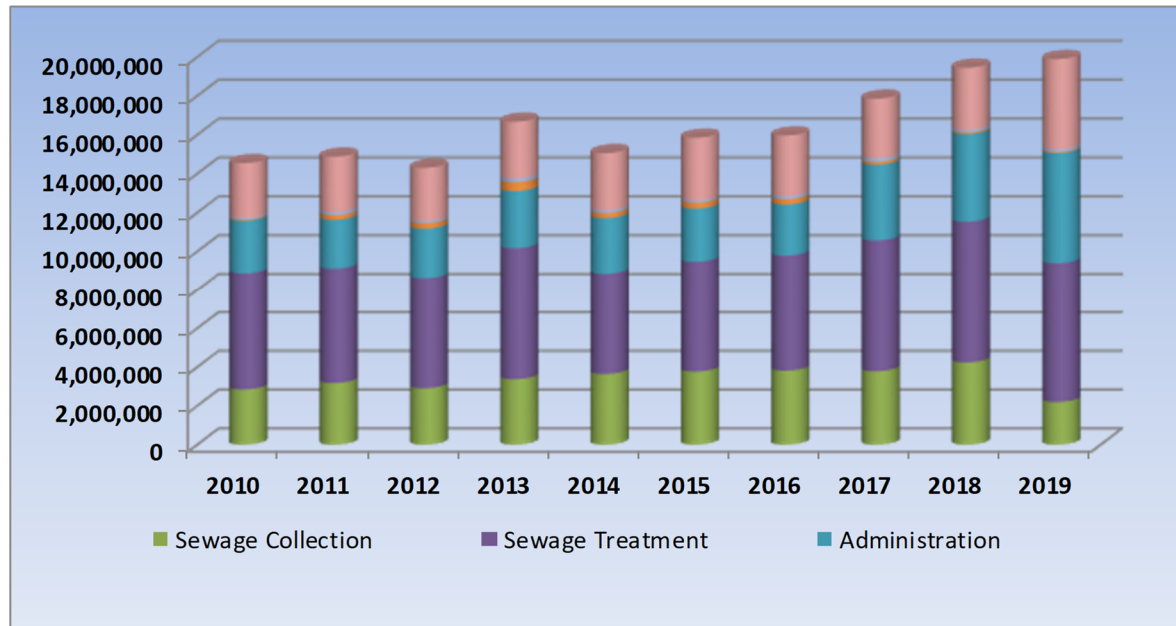
FYE June 30	Property Taxes	Investment Earnings	Rental Income	Other	Total Non- Operating
2010	100,077	940,733	170,448	286,370	1,497,628
2011	834,524	64,645	246,948		1,146,117
2012	808,759	49,106	199,974		1,057,839
2013	773,092	30,257	155,448		958,797
2014	910,446	34,712	341,007		1,286,165
2015	1,115,669	43,743	258,827		1,418,239
2016	1,119,870	70,451	353,536		1,543,857
2017	1,218,094	61,556	90,941		1,370,591
2018	1,394,529	298,133	311,947		2,004,609
2019	1,515,069	817,201	675,254		3,007,524

Source: West County Wastewater District Audited Financial Statements

Property Taxes include reductions due to the shift in property taxes related to the San Pablo Redevelopment Allocation and ERAF.

WEST COUNTY WASTEWATER DISTRICT OPERATING EXPENSES BY FUNCTION Last Ten Fiscal Years

OPERATING EXPENSES



Source: West County Wastewater District Audited Financial Statements

OPERATING EXPENSES

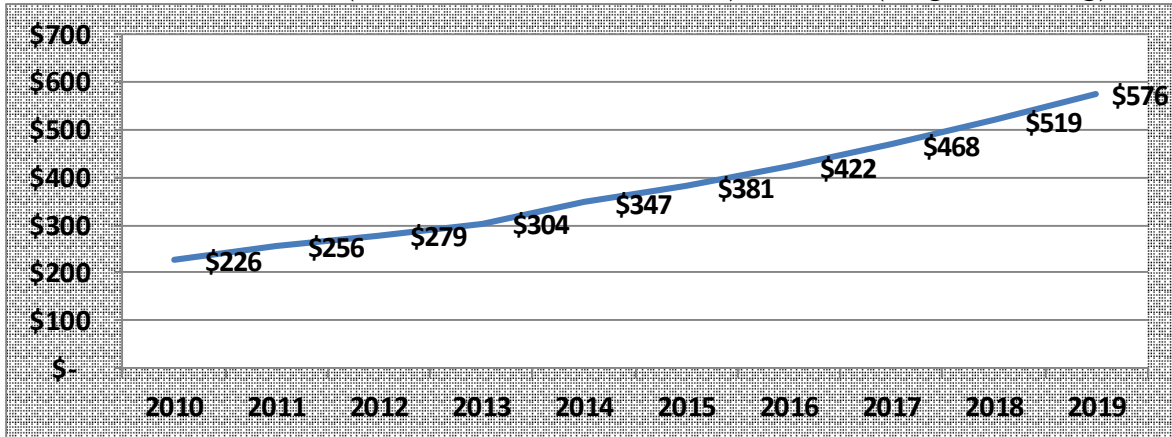
FYE June 30	Sewage Collection	Sewage Treatment	Administration	Service Contracts	WCA	Depreciation	Total
2010	2,847,920	6,023,821	2,713,479	55,756	91,085	2,814,261	14,546,322
2011	3,176,367	5,940,831	2,515,705	239,973	148,273	2,856,717	14,877,866
2012	2,908,773	5,712,477	2,554,171	287,977	105,041	2,735,155	14,303,594
2013	3,372,341	6,798,874	2,935,722	474,623	172,391	2,921,783	16,675,734
2014	3,639,837	5,208,478	2,868,589	269,874	133,670	2,940,249	15,060,697
2015	3,768,123	5,704,464	2,740,638	303,888	107,463	3,222,967	15,847,543
2016	3,815,139	5,976,699	2,631,540	272,421	148,541	3,119,615	15,963,955
2017	3,783,288	6,784,087	3,899,443	147,060	174,212	3,071,113	17,859,203
2018	4,236,904	7,298,501	4,507,522	84,834	121,698	3,198,839	19,448,298
2019	2,197,399	7,197,285	5,661,627	64,076	138,066	4,634,050	19,892,503
	11%	36%	28%	0%	1%	23%	100%

Source: West County Wastewater District Audited Financial Statements

REVENUE CAPACITY

WEST COUNTY WASTEWATER DISTRICT MAJOR REVENUE BASE AND RATES Last Ten Fiscal Years

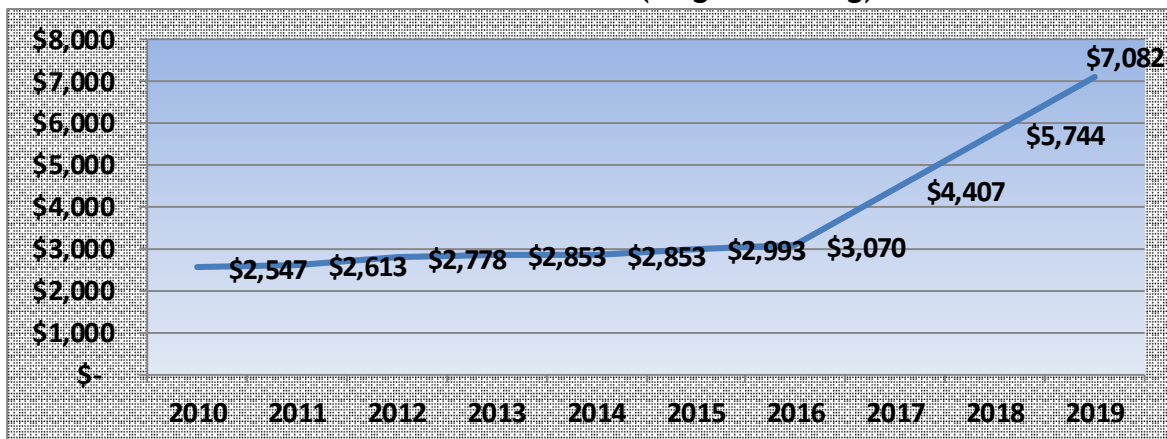
ANNUAL SEWER SERVICE (ENVIRONMENTAL QUALITY) CHARGE (Single dwelling)



Source: West County Wastewater District Schedule of User Fees

Note: All residential accounts pay a flat sewer service charge per household. Charges for commercial and industrial users consist of an annual rate based upon measured volume of water usage.

CONNECTION FEE (Single dwelling)



Source: West County Wastewater District Schedule of User Fees

Note: New customers connecting to the wastewater collection and treatment system are charged a connection fee to share the cost of existing infrastructure with all customers.

WEST COUNTY WASTEWATER DISTRICT
PRINCIPAL REVENUE SOURCES
Current and Ten Years Ago

Customer	Type of Business	FY 2019			FY 2009		
		Sewer Use Charge	Rank	% of SUC	Sewer Use Charge	Rank	% of SUC
East Bay MUD	Public Agency/Industrial	1,482,429	1	6.3%	466,042	1	5.5%
Guardian & KW Hilltop LLC	Multi-family residential	506,016	2	2.1%			
Chevron Refinery	Industrial	386,323	3	1.6%			
Richmond Essex LP	Multi-family residential	216,864	4	0.9%	82,270	4	1.0%
West Contra Costa Unified School District	Schools	171,425	5	0.7%			
FF Hills LP	Multi-family residential	171,684	6	0.7%			
Steadfast Hilltop Commons LP	Multi-family residential	162,648	7	0.7%	61,560	6	0.7%
West Contra Costa Justice Center	Public Agency	150,589	8	0.6%			
Pacific Mobile IV LP	Mobile Home Park	125,500	9	0.5%			
LBG HILLTOP LLC		121,514	10	0.5%			
Hilltop Bayview	Multi-family residential				191,710	2	2.3%
Berlex Laboratories, Inc.	Light Industry				78,409	5	0.9%
Hilltop Mall	Commercial/Restaurants				55,196	7	0.6%
United States of America	Public Agency				45,790	8	0.5%
Quality Carriers, Inc.	Light Industry				166,280	3	2.0%
The Summit at Hilltop- Prime Richmond Housing	Multi-family residential				43,811	9	0.5%
San Pablo Redevelopment Agency	Public Agency				38,928	10	0.5%
Total		3,494,993		14.8%	1,229,996		14.4%

Source: West County Wastewater District Customer Billings.

Sewer Use Charge Customer Type	FY 2019		FY 2009	
	Sewer Revenue	% of Total	Sewer Revenue	% of Total
Residential	\$ 18,613,658	79%	\$ 5,956,690	70%
Commercial	3,139,358	13%	1,911,342	22%
Industrial	1,911,864	8%	650,000	8%
Total	\$ 23,664,880	100%	\$ 8,518,032	100%

Source: West County Wastewater District Audited Financial Statements

**WEST COUNTY WASTEWATER DISTRICT
PROPERTY TAX INFORMATION
Last Ten Fiscal Years**

Assessed Valuation of Taxable Property within the District

FYE June 30	County Secured	County Unsecured	Total	% Change
2009	7,796,654,191	194,438,391	7,991,092,582	
2010	7,814,586,596	194,885,599	8,009,472,195	0.2%
2011	6,190,398,465	192,496,264	6,382,894,729	-20.3%
2012	6,555,576,933	195,169,554	6,750,746,487	5.8%
2013	6,135,176,625	232,644,475	6,367,821,100	-5.7%
2014	5,967,088,206	179,265,098	6,146,353,304	-3.5%
2015	6,747,353,358	184,879,011	6,932,232,369	12.8%
2016	7,355,374,837	204,228,652	7,559,603,489	9.1%
2017	7,907,856,769	199,944,749	8,107,801,518	17.0%
2018	8,484,774,635	197,601,420	8,682,376,055	14.9%

Source: Contra Costa County Auditor-Controller "Certificate of Assessed Valuations"

Property Tax and Sewer Service Charge Fees Collected

FYE June 30	Property Tax	Sewer Service Charges
2009	457,834	8,518,032
2010	100,077	9,762,875
2011	834,524	12,182,304
2012	808,759	12,239,921
2013	773,092	13,854,746
2014	910,446	14,038,949
2015	1,115,669	15,650,703
2016	1,119,870	17,290,831
2017	1,218,094	19,780,211
2018	1,394,529	21,047,634

Source: West County Wastewater District Audited Financial Statements

Note: In FY 2010, Proposition 1A shifted a portion of the District property tax revenues to the State. In FY 2011, a settlement by Contra Costa County with Chevron reduced property tax revenue.

WEST COUNTY WASTEWATER DISTRICT SCHEDULE OF CAPACITY CHARGES

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>
Beginning Balance July 1	270,363	-	-	677,564
Capacity charge fee revenue received:				
Connection fees	80,289	255,343	175,260	82,111
Flow zone fees	52,752	114,041	50,206	33,237
Toll zone 6		14,767	45,729	544
Toll zone 22			551	
Capacity charge revenue for the Fiscal Year	133,041	384,151	271,745	115,893
Interest earned on investments				2,039
Capacity construction project cost incurred:				
Market Street sewer replacement Project 14CS204 (1)			(146,216)	(795,495)
Church Lane to Road 20 sewer replacement Project 14CS214 (2)		(113,789)	(125,529)	
Pipe bursting of sanitary sewers (18CS202) (3)	(188,700)			
Ending Balance	403,403	270,363	-	-

Source: West County Wastewater District accounting records.

(1) Total cost of Project 14CS204 was \$941,711 as of 6/30/16.

(2) Total cost of Project 14CS214 was \$239,318 as of 6/30/17.

(3) Bid item 2- 370 linear feet of 8" pipe at \$510/foot.

Note: A portion of connection fees are considered to be capacity related. Such fees must be used for projects that increase system capacity.

WEST COUNTY WASTEWATER DISTRICT DEBT CAPACITY AND LOAN REPAYMENT SCHEDULE

Debt Capacity

The District's ability to borrow is dependent upon the capacity to increase sewer usage fees to pay for the proposed debt. The District is committed to balancing the costs of operations, maintenance, environmental compliance, and administration with the goal of minimizing the burden on ratepayers. The District has no current legal debt limit and there is no maximum amount of debt that the District may borrow.

<u>Fiscal Year</u>	<u>Ratio of Debt</u>	
	<u>to Personal</u>	<u>Debt per</u>
	<u>Income</u>	<u>Capita</u>
2015	0.00%	\$ 0.75
2016	0.04%	\$ 25.01
2017	0.35%	\$ 247.03
2018	0.42%	\$ 305.40
2019	0.44%	\$ 333.15

During fiscal year 2015, the District applied for and was granted approval for four California State Water Resources Control Board (SRF) loans to finance capital improvement projects:

<u>Loan</u>	<u>Repayment Dates</u>		<u>Interest Rate</u>	<u>Loan Offered</u>	<u>Loan Amount</u>	<u>Loan Available</u>
	<u>Agreement #</u>	<u>Start</u> <u>End</u>				
	7876-110	05/06/2017 05/06/2036	1.90%	1,654,505	1,293,841	
	7876-120	05/31/2020 05/31/2039	1.90%	2,881,758	284,736	2,614,624
	7876-130	08/30/2018 08/30/2037	1.90%	14,593,521	13,755,553	180,826
	8043-110 (1)	06/03/2018 06/03/2037	1.00%	30,457,093	19,322,858	
Total as of 6/30/19				49,586,877	34,656,989	2,795,450

Repayment Schedule (2):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FYE 6/30/20	1,708,362	443,757	2,152,119
FYE 6/30/21	1,691,135	460,984	2,152,119
FYE 6/30/22	1,714,312	437,807	2,152,119
FYE 6/30/23	1,737,840	414,280	2,152,119
FYE 6/30/24	1,761,724	390,395	2,152,119
FYE 6/30/25	1,785,971	366,149	2,152,119
FYE 6/30/26	1,810,586	341,534	2,152,119
FYE 6/30/27	1,835,575	316,544	2,152,119
FYE 6/30/28	1,860,946	291,174	2,152,119
Thereafter	18,750,539	1,430,004	20,180,543
Total	34,656,989	4,892,628	39,549,617

(1) Loan Offered amount is before grants awarded under Proposition 1 of \$5,356,330 and Proposition 13 of \$4,000,000. In the fiscal year ending June 30, 2018, grant proceed of \$9,001,445 were received. In the fiscal year ending June 30, 2019, grant proceed of \$354,885 were received.

(2) This is a tentative payment schedule. The final payment schedule will be provided by the SRF after all disbursements are paid and project construction is complete.

The District incurs the costs of the projects and submits claims for reimbursement to the SRF. To pay for these loans, the District adopted resolutions to increase sewer use fees by 11% each year for the five years July 1, 2015 through June 30, 2020. District sewer use rates remain below the average for Bay Area special districts.

WEST COUNTY WASTEWATER DISTRICT DEMOGRAPHIC AND ECONOMIC INFORMATION Last Ten Fiscal Years

DISTRICT POPULATION, INCOME AND UNEMPLOYMENT

Fiscal Year	District Population	Total Personal Income (A)	Per Capita Personal Income	Average County Unemployment Rate (B)	Contra Costa County Population	District Population as % of County
2010	125,096	6,938,449,640	55,465	11.2%	1,049,025	11.9%
2011	96,597	5,492,228,784	56,857	11.0%	1,059,495	9.1%
2012	97,296	5,740,526,109	59,001	9.4%	1,069,977	9.1%
2013	97,998	6,077,955,966	62,022	7.7%	1,083,340	9.0%
2014	98,724	6,104,627,626	61,835	6.1%	1,097,172	9.0%
2015	99,511	6,388,349,816	64,198	4.9%	1,111,143	9.0%
2016	102,481	6,932,319,943	67,645	4.9%	1,123,429	9.1%
2017	103,650	7,270,101,341	70,141	4.2%	1,139,513	9.1%
2018	103,759	7,510,684,560	72,386	3.5%	1,147,879	9.0%
2019	104,027	7,819,983,109	75,172	3.1%	1,155,879	9.0%

Sources: * Population: State of California Department of Finance, Demographic Research Unit, including adjustments, as of January 1019, based upon the approximate percentage of total population served in each of the following areas: through Fiscal Year 2010 - San Pablo 100%, Pinole 18%, Richmond 28%, and unincorporated Contra Costa County 35%; effective Fiscal Year 2011 - San Pablo 100%, Pinole 8%, Richmond 31%, and unincorporated Contra Costa County 21%.

* Total Personal Income: State of California, Department of Finance, Demographic Research

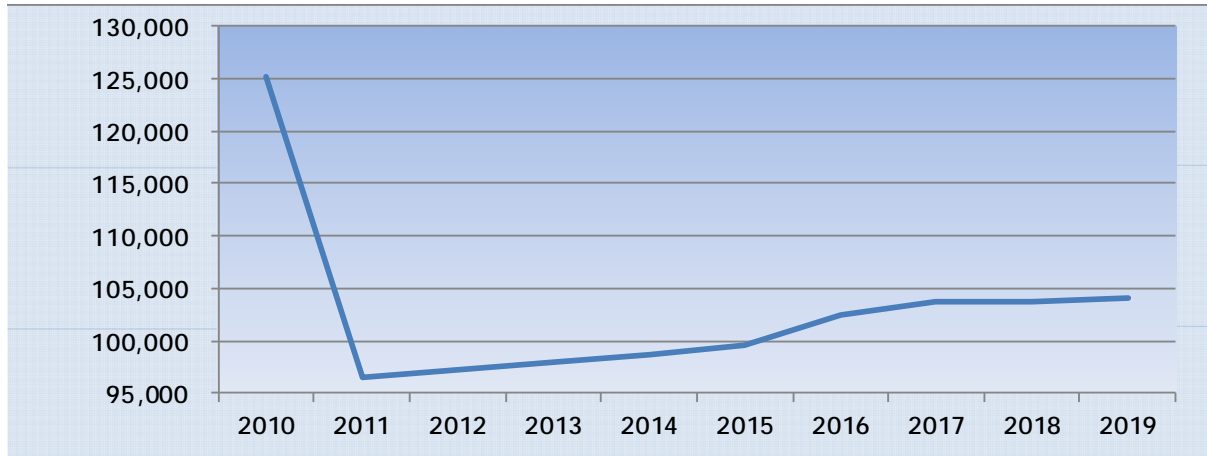
* Unemployment Rate: State of California, Economic Development Department, as of January 2019.

Notes: (A) Data calculated by multiplying District Population by Per Capita Personal ncome .

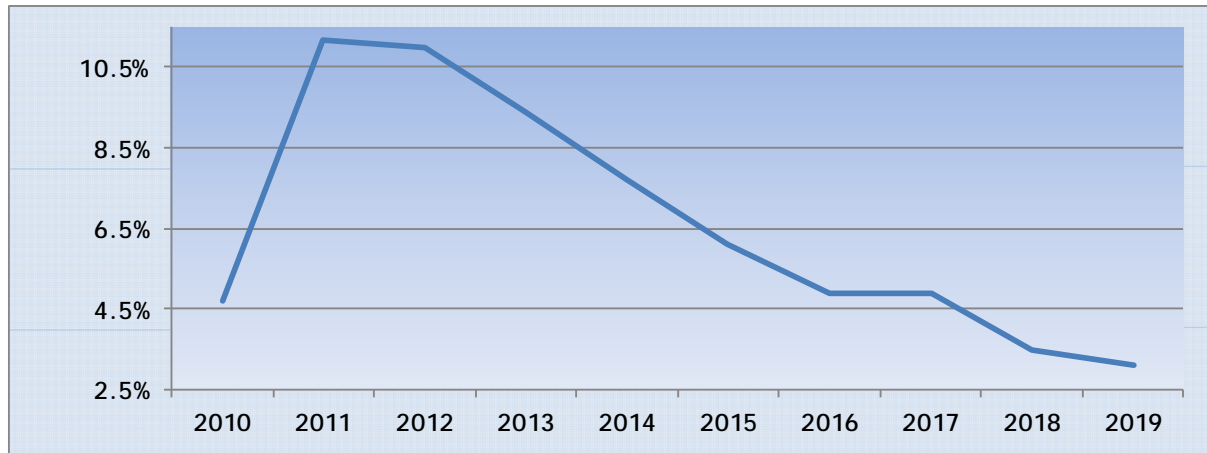
(B) Data presented for Contra Costa County - data not available at the District level.

WEST COUNTY WASTEWATER DISTRICT
DEMOGRAPHIC AND ECONOMIC INFORMATION
Last Ten Fiscal Years

Population Served

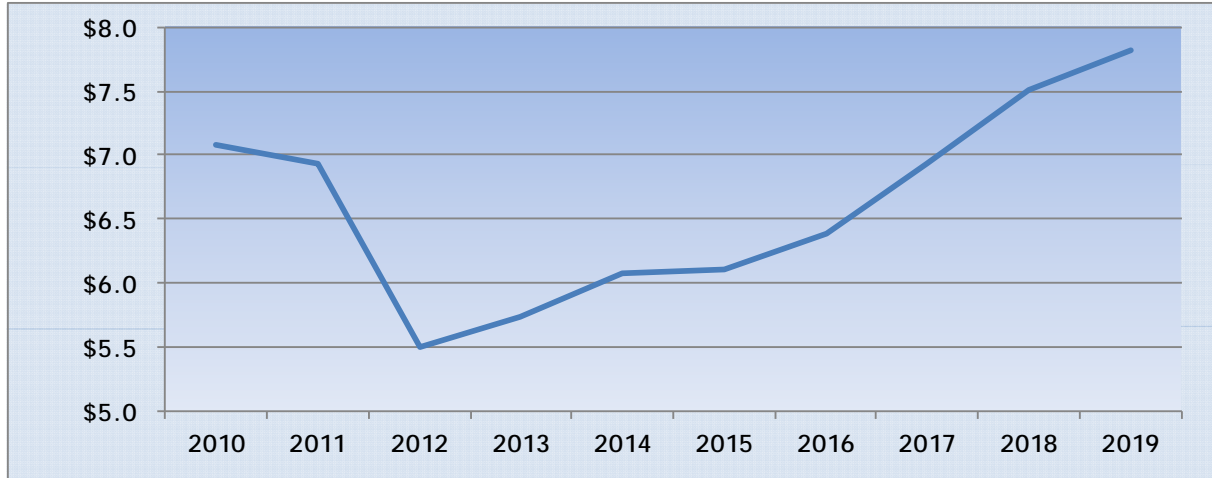


Unemployment Rate - Contra Costa County

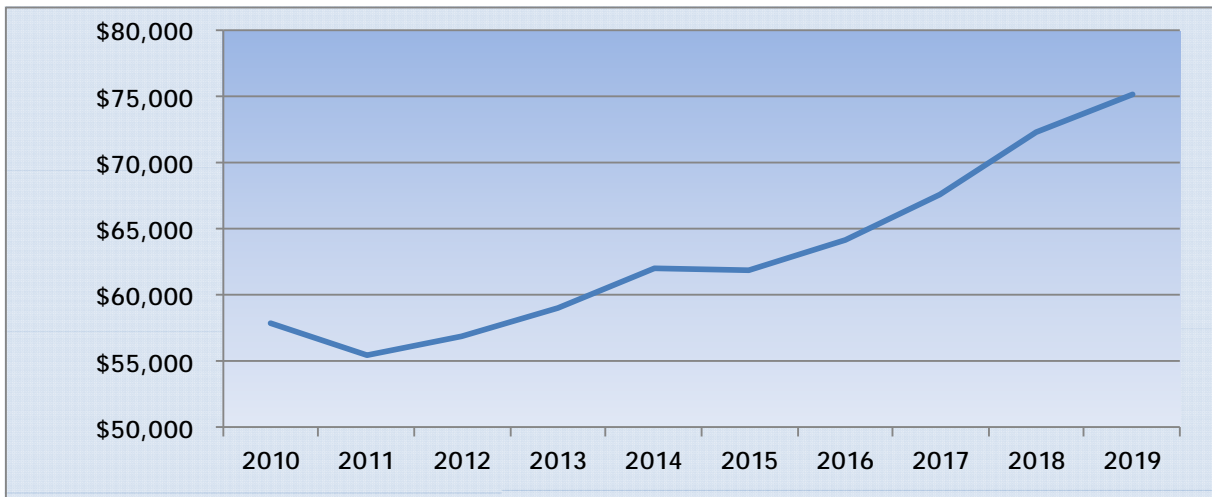


WEST COUNTY WASTEWATER DISTRICT
DEMOGRAPHIC AND ECONOMIC INFORMATION
Last Ten Fiscal Years

Total Personal Income (in billions)



Per Capita Personal Income



WEST COUNTY WASTEWATER DISTRICT
DEMOGRAPHIC AND ECONOMIC INFORMATION
PRINCIPAL EMPLOYERS
Current and Ten Years Ago

Employer	FY 2018			FY 2009		
	Number of Employees	Rank	% of Total District Employment	Number of Employees	Rank	% of Total District Employment
Chevron Refinery	3,510	1	3.0%	2,461	1	2.1%
West Contra Costa Unified School District	2,244	2	1.9%			
Social Security Administration	1,259	3	1.1%			
Blue Apron, Inc.	1,200	4	1.0%			
U. S. Postal Service	1,047	5	0.9%			
Kaiser Foundation Hospitals	928	6	0.8%			
City of Richmond	888	7	0.8%			
Contra Costa County	844	8	0.7%			
Contra Costa College	455	9	0.4%	599	3	0.5%
Costco Wholesale #482	431	10	0.4%	352	6	0.3%
Permanente Medical Group				786	2	0.7%
Casino San Pablo				503	4	0.4%
Doctors Medical Center				394	5	0.3%
Vale Care Center				266	7	0.2%
California Autism Foundation, Inc.				250	8	0.2%
Walmart Store 3455				245	9	0.2%
Target				243	10	0.2%
Macy's Hilltop				226		0.2%
Subtotal	12,806		10.9%	6,325		5.5%
All Others	104,907		89.1%	108,408		94.5%
Total workforce	117,713		100.0%	114,733		100.0%

Source: Comprehensive Annual Financial Reports for Fiscal Year Ending June 30, 2018 for City of Richmond, City of San Pablo and City of Pinole. Data is not available for June 30, 2019.

Note: Includes City of Richmond employers not within the District. Excludes employers in unincorporated Contra Costa County within the District.

**WEST COUNTY WASTEWATER DISTRICT
DEMOGRAPHIC AND ECONOMIC INFORMATION
FULLTIME EQUIVALENT EMPLOYEES - BUDGETED
Last Ten Fiscal Years**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Administration Services										
Administration	9	9	11	11	11	8	8	6	8	8
Finance						4	4	4	4	4
Subtotal- Administration Services	9	9	11	11	11	12	12	10	12	12
Infrastructure and Planning										
Capital Programs and Mapping	6	6	6	8	9	9	9	9	9	9
Collection Systems	12	12	12	12	12	12	13	14	14	14
Subtotal- Infrastructure and Planning	18	18	18	20	21	21	22	23	23	23
Water Quality and Recovery										
Environmental Programs and Compliance	5	5	5	5	5	4	4	4	4	4
Plant Operations	12	12	12	11	11	11	11	13	14	14
Maintenance	10	10	9	9	9	9	9	10	11	11
Subtotal- Water Quality and Recovery	27	27	26	25	25	24	24	27	29	29
Total District	54	54	55	56	57	57	58	60	64	64

Source: West County Wastewater District Budget.

WEST COUNTY WASTEWATER DISTRICT
OPERATING INFORMATION
Last Ten Fiscal Years

Engineering Permits Completed

Fiscal Year	Repairs	Single Family	Multi-Family	Commercial	Industrial	Misc.	Total
2010	429	17	-	2	-	1	449
2011	186	-	-	1	-	-	187
2012	357	5	1	1	-	1	365
2013	328	2	-	3	1	1	335
2014	378	5	-	1	-	6	390
2015	445	15	-	2	-	2	464
2016	413	15	-	2	-	2	432
2017	353	21	1	3	-	6	384
2018	310	16	1	-	-	-	327
2019	177	9	-	1	-	5	192

Source: West County Wastewater District operating information from monitoring systems

WEST COUNTY WASTEWATER DISTRICT
OPERATIONS STATISTICS
Ten Fiscal Years

Collection System Activity

Fiscal Year	Pipeline Cleaning (1,000 Feet)	Video Inspections (1,000 Feet)	Number of Service Calls	Number of Main Stoppages	Total
2010	2,176	232.4	116	14	2,538
2011	2,410	271.7	141	11	2,834
2012	2,077	295.9	122	13	2,508
2013	2,101	326.4	136	11	2,574
2014	2,030	372.4	163	15	2,580
2015	2,175	345.5	154	15	2,690
2016	1,861	158.3	131	14	2,164
2017	1,588	154.0	131	11	1,884
2018	1,809	104.9	122	9	2,045
2019	1,638	123.3	133	13	1,907

Source: West County Wastewater District operating information from monitoring systems.

WEST COUNTY WASTEWATER DISTRICT
OPERATING INFORMATION
Last Ten Fiscal Years

Treatment Plant Activity

Fiscal Year	Effluent Flow (Millions of Gallons)	Recycled Water Produced (Millions of Gallons)	Effluent BOD (mg/L)	Effluent TSS (mg/L)	Electricity Used (MWh)	Gas Produced (k ft3)
2010	2,957		7.5	10.2	4,919	37,342
2011	3,258		6.6	8.5	5,218	42,798
2012	3,001		7.6	11.7	5,143	45,044
2013	2,898		6.1	8.0	5,156	45,532
2014	3,124	1,547	8.7	13.9	5,042	39,388
2015	2,763	1,669	7.3	9.8	5,446	41,332
2016	2,820	1,884	9.3	13.0	5,710	38,973
2017	3,675	1,394	12.0	15.0	5,840	47,533
2018	2,884	1,279	8.0	10.0	4,613	32,269
2019	3,247	887	6.7	5.5	4,533	45,575

Source: West County Wastewater District operating information from monitoring systems.

Facility Capacity Data

Fiscal Year	Sewer Gravity Pipeline Miles	Sewer Force Mains Miles	Pump Stations	Treatment Plant Permitted Capacity (ADWF) MGD*	Treatment Plant Amount in Use (ADWF) MGD*
2010	246.1	10.9	18	12.5	**6.7
2011	248.9	10.3	18	12.5	7.1
2012	248.9	***5.5	17	12.5	7.7
2013	248.9	5.5	17	12.5	**6.8
2014	248.9	5.5	17	12.5	6.5
2015	248.9	5.5	17	12.5	6.3
2016	250.0	5.5	17	12.5	**5.9
2017	249.0	6.0	17	12.5	6.9
2018	249.0	6.0	17	12.5	7.0
2019	249.0	6.0	17	12.5	6.2

* ADWF=Average Dry Weather Flow; MGD=Millions of Gallons per Day

** Decrease due to drought conditions and water conservation imposed by East Bay Municipal Utility District.

*** The decrease in miles for force mains is due to a change in the interpretation of the definition of force main. The variance accounts for the removal of the outfall from the force main calculation.

Source: West County Wastewater District operating information from monitoring systems.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
West County Wastewater District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the West County Wastewater District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the West County Wastewater District's basic financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the West County Wastewater District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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


CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
October 18, 2019