

COTTONWOOD WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

COTTONWOOD WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cottonwood Water District
Cottonwood, California

Opinion

We have audited the accompanying financial statements of Cottonwood Water District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cottonwood Water District as of June 30, 2023, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cottonwood Water District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cottonwood Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cottonwood Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cottonwood Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

The required supplementary information other than MD&A, as listed in the table of contents on page 18 as Schedule of the Plan's Proportionate Share of the Net Pension Liability, page 19 as Schedule of District Contributions is 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 (GASB), 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.



*Larry Bain, CPA,
An Accounting Corporation
December 13, 2023*

COTTONWOOD WATER DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2023**

Current Assets:	
Cash	\$ 383,273
Investments	552,745
Accounts receivable	120,304
Interest receivable	4,340
Prepaid expense	25,788
Inventory	18,930
Restricted cash	<u>157,231</u>
Total current assets	<u>1,262,611</u>
Noncurrent Assets:	
Capital assets:	
Nondepreciable capital assets:	59,956
Depreciable capital assets:	3,130,854
Less accumulated depreciation	<u>(1,600,694)</u>
Total capital assets (net of accumulated depreciation)	<u>1,590,116</u>
Total noncurrent assets	<u>1,590,116</u>
Total assets	<u>2,852,727</u>
Deferred Outflow of Resources:	
Deferred outflow-pension	<u>131,822</u>
Total deferred outflows of resources	<u>131,822</u>
Current Liabilities:	
Accounts payable	18,345
Accrued payroll	16,216
Compensated absences	<u>21,746</u>
Total current liabilities	<u>56,307</u>
Noncurrent Liabilities:	
Net pension liability	179,984
Long-term portion of customer deposits	<u>66,209</u>
Total long-term liabilities	<u>246,193</u>
Total liabilities	<u>302,500</u>
Deferred Inflows of Resources	
Deferred inflow-pension	<u>55,712</u>
Total deferred inflows of resources	<u>55,712</u>
Net Position	
Net investment in capital assets	1,590,116
Unrestricted	<u>1,036,221</u>
Total net position	<u><u>\$ 2,626,337</u></u>

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

COTTONWOOD WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Operating revenue	
Water sales	\$ 926,428
Total operating revenues	<u>926,428</u>
Operating expenses	
Salary and benefits	289,784
Services and supplies	292,555
Depreciation	<u>100,907</u>
Total operating expenses	<u>683,246</u>
Operating income (loss)	<u>243,182</u>
Nonoperating revenue (expenses)	
Interest income	12,943
Capacity charges	53,175
Gain (loss) sale of assets	<u>7,559</u>
Nonoperating revenues (expenses)	<u>73,677</u>
Increase (Decrease) in net position	316,859
Net position, beginning of year	<u>2,309,478</u>
Net position, end of year	<u>\$ 2,626,337</u>

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

COTTONWOOD WATER DISTRICT

**STATEMENT OF CASH FLOWS
JUNE 30, 2023**

Cash flows from operating activities:	
Cash receipts from customers	\$ 894,120
Cash payments to suppliers for goods and services	(267,776)
Cash payments to employees for services	(312,048)
Net cash provided by operating activities	314,296
Cash flows from capital and related financing activities:	
Cash paid for capital assets	(155,269)
Capacity charges	53,175
Cash received for sold capital assets	7,559
Net cash used by capital and related financing activities	(94,535)
Cash flows from investing activities:	
Interest received on investments	9,620
Net increase in cash and cash equivalents	
Cash and cash equivalents, beginning of year	229,381
Cash and cash equivalents, end of year	\$ 1,093,249
Reconciliation of cash and cash equivalents to the balance sheet:	
Cash	\$ 383,273
Investments	552,745
Restricted cash	157,231
Cash and cash equivalents, June 30	\$ 1,093,249
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	\$ 243,182
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	100,907
Changes in assets and liabilities:	
Accounts receivable	(31,844)
Prepaid expenses	3,407
Inventory	(1,448)
Accounts payables	6,171
Customer deposits	(464)
GASB 68-pension adjustments	(1,786)
Accrued payroll	123
Compensated absences	(3,952)
Net cash provided by operating activities	\$ 314,296

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

COTTONWOOD WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2023

Note 1: Summary of Significant Accounting Policies

The Cottonwood Water District (the “District”), a special district of the State of California, was organized to provide water to the residents of the area in and around the town of Cottonwood, California. The financial statements of the District include the financial activities of the Cottonwood Water District.

Cottonwood Water District was created under the State of California Water Code on January 20, 1955. The District’s primary source of revenues is from charges to residential customers for water services in the District’s boundaries located in Southern Shasta County, California. As well, the District receives a small amount of interest income from investments.

A. Reporting Entity

The District has defined its reporting entity in accordance with generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body’s financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit’s governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with Governmental Accounting Standards Board Statement No. 61.

B. Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund – An Enterprise fund is used to account for the District’s water operations that is financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The accompanying financial statements have been prepared on the full accrual basis of accounting. This is a basis of accounting that conforms to accounting principles generally accepted in the United States of America.

U.S. generally accepted accounting principles require all proprietary funds to use the accrual basis of accounting. The revenues are recognized when they are earned. Expenses are recognized under the accrual basis of accounting when the related fund liability is incurred.

COTTONWOOD WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

D. Prepaid Expenses

Accounts for prepaid insurance, dues and other expenses.

E. Inventories

The District's inventories are valued at historical cost on a first-in, first-out basis. Expenditures are recorded when inventory items are used. The inventory consists of materials and supplies for maintenance of the District's water system.

F. Fixed Assets

The District's capital assets include plant and equipment, which are recorded at historical cost. Improvements completed by the original developer are donated to the District without cost and are recorded at their fair market value.

The District's policy is to capitalize all assets with a useful life of more than a year which cost in excess of \$1,500, except for collections of automated meters which are capitalized even though the value of each individual asset is small because the total value of the meter replacement project was significant. The District uses the straight-line method of computing depreciation. Estimated useful lives of the District's assets are determined based on the length of time the asset class is expected to provide service to the District and are as follows:

Transmission and Distribution	35 years
Buildings	35 years
Equipment	5 to 15 years

Maintenance and repairs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. Costs incurred prior to completion for major improvements or construction of capital assets are accumulated in construction in progress. Once they are ready for use, assets previously recorded in construction in progress are transferred to the appropriate capital asset category.

G. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes bank accounts and deposits with the State of California Local Agency Investment Fund (LAIF).

COTTONWOOD WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

H. Revenue Policies – Utility Fees

The District's principal sources of revenue are from water sales, water connection fees, and capacity expansion charges. Water rates are established by the Board. The District's authority to set water rates is not subject to the oversight or approval of the California Public Utilities Commission or another regulatory agency. The District recognizes these charges when they are earned through the provision of services.

I. Revenue Policies – Connection Fees.

At the time a building permit is sought for new construction, customers wishing to connect to the District's water system are required to pay the District a connection fee, which was \$6,900 per connection until December 31, 2014. On January 1, 2015, the fee increased to \$12,000 per connection. The District classifies this revenue as non-operating. Connection fees received by the District in advance of the customer connecting to District infrastructure are recorded as unearned revenue and recognized as revenue at the time the connection occurs.

J. Allocation of Salaries to Administration and Transmission and Distribution.

The salary of the general manager is allocated 50% to administration and 50% to transmission and distribution based on the estimated amount of time spent in each function. All other employees are assigned 100% to either administration or transmission and distribution depending on the nature of their job duties.

K. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

L. Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Customer Deposits:

First time customers are required to post a deposit of \$100, which for the homeowner is returned after one year of good payment history and for renters is applied to their bill prior to move out. Deposits are recorded as a liability until such time as they are returned to the customer or applied to the water bill due to non-payment of the customer's account.

COTTONWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

N. Compensated Absences:

The District's employees earn vacation in varying amounts depending on length of service. Upon separation from the District, employees are entitled to full payment for accrued vacation but not for sick leave. The District records its obligations for vacation when earned based on current rates of pay at the time. The classification of the liability as current is based on experience and known conditions impacting use in the subsequent fiscal year.

O. Estimated Insurance Liabilities:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, natural disasters, and delivery of water. These risks are addressed through the District's membership in the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA). The purpose of the JPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance, or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The JPIA's members have pooled funds in order to be self-insured for general liability, property, pollution liability and workers' compensation. Each Member district pays a premium commensurate with the level of coverage requested, and share surpluses and deficit proportionate to their participation.

The District has had no settlements that exceeded its insurance coverage in any of the last three years. Complete audited financial statements of the JPIA can be obtained online at www.acwajpia.com.

P. Net Position:

Net position comprise the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

Invested in capital assets, net of related debt-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

Q. Restricted and Unrestricted Resources:

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, and then unrestricted resources as needed.

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 1: Summary of Significant Accounting Policies (Continued)

R. Pensions

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

Note 2: Cash and Investments

Cash and investments are reported on the balance sheet as follows:

Cash	\$ 383,073
Investments	552,745
Restricted cash	157,231
Total cash and investments	\$ 1,093,049

Cash and investments at June 30, 2023, consisted of the following:

General checking	\$ 382,673
Petty cash/change fund	400
Restricted checking	157,231
LAIF	552,745
Total cash and investments	\$ 1,093,049

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2: Cash and Investments (Continued)

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity:

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
State Investment Pool*	\$ 552,745	\$ 552,745	\$ -
Totals	\$ 552,745	\$ 552,745	\$ -

*Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. Custodial Credit Risk

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

At June 30, 2023, the District's deposits balance was \$539,968 and the carrying amount was \$539,904. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, \$7,321 was covered by FDIC insurance and the remainder by collateral held in the pledging bank's trust department in the District's name.

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$176.44 billion. Of the \$176.44 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.78% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2: Cash and Investments (Continued)

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

Note 3: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	<u>7/1/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2023</u>
Capital assets not being depreciated				
Land	\$ 22,741	\$ -	\$ -	\$ 22,741
Construction in progress		16,727		16,727
Annexation costs	20,488			20,488
Total capital assets, not being depreciated	<u>43,229</u>	<u>16,727</u>		<u>59,956</u>
Capital assets, being depreciated				
Transmission and distribution	2,076,473	579,311	(23,880)	2,631,904
Building	507,401	17,677	(457,262)	67,816
Equipment	429,021	10,274	(18,961)	420,334
Water atlas	10,800			10,800
Total capital assets, being depreciated	<u>3,023,695</u>	<u>607,262</u>	<u>(500,103)</u>	<u>3,130,854</u>
Less accumulated depreciation:	<u>(1,531,170)</u>	<u>(100,907)</u>	<u>31,383</u>	<u>(1,600,694)</u>
Total capital assets, being depreciated, net	<u>1,492,525</u>	<u>506,355</u>	<u>(468,720)</u>	<u>1,530,160</u>
Total capital assets, net	<u>\$ 1,535,754</u>	<u>\$ 523,082</u>	<u>\$ (468,720)</u>	<u>\$ 1,590,116</u>

Note 4: Accounts Receivable – Utility Customers

Charges for water services including hookup and administration charges are set by the Board of Directors. Service is discontinued if accounts become delinquent. Because the District holds deposits for new customers, amounts written off are immaterial each year and no allowance for bad debts is necessary.

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 5: Long-Term Liabilities

The following is a summary of changes in the business-type activities long-term liabilities for the fiscal year ended June 30, 2023:

	Balance 7/1/2022	Additions	Retirements	Balance 6/30/2023
Net pension liability	\$ 107,239	\$ 72,745	\$ -	\$ 179,984
Deposits from others	66,673		(464)	66,209
Total	<u>\$ 173,912</u>	<u>\$ 72,745</u>	<u>\$ (464)</u>	<u>\$ 246,193</u>

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan is 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, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.00% @ 60	2.00% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52 - 67
Monthly benefits , as a % of eligible	1.50% to 2.00%	1.00% to 2.00%
Required employee contribution rates	7.00%	6.75%
Required employer contribution rates	8.63%	7.47%

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

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

For the year ended June 30, 2023, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-employer	\$	38,929
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B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2023, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

		<u>Proportionate share of Net pension liability</u>
Miscellaneous Plan	\$	179,984

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of reporting dates June 30, 2022 and 2023 were as follows:

Proportion - June 30, 2022		0.00385%
Proportion - June 30, 2023		0.00565%
Change - Increase (Decrease)		0.00180%

For the year ended June 30, 2023, the District recognized pension expense of \$37,144. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,614	\$ (2,420)
Changes of assumptions	18,443	
Net difference between projected and actual earnings on pension plan investments	32,968	
Changes in proportion	37,868	(44,376)
Change in proportionate share of contributions		(8,916)
District contributions subsequent to the measurement date	38,929	
Total	<u>\$ 131,822</u>	<u>\$ (55,712)</u>

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

\$38,929 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of net pension liability for year ended June 30, 2024.

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

Reporting Period Ended June 30:		
2024	\$	(15,070)
2025		(8,490)
2026		6,541
2027		(20,162)
2028		-
Thereafter		-

Actuarial Assumptions – The total pension liabilities in the June 30, 2021 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	6.90%

Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 6.90% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 6.90 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 6.90 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS reviews all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations.

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

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

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10 (1,2)</u>
Global equity-cap-weighted	30.0%	4.45%
Global equity non-cap-weighted	12%	3.84%
Private Equity	13%	7.28%
Treasury	5%	0.27%
Mortgage backed securities	5%	0.50%
Investment grade corporates	10%	1.56%
High yield	5%	2.27%
Emerging market debt	5%	2.48%
Private debt	5%	3.57%
Real assets	15%	3.21%
Leverage	-5%	-0.59%

(1) An expected inflation of 2.30% used for this period

(2) Figures are based on the 2021-22 asset liability management study

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

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

	<u>Discount Rate -1% (5.90%)</u>	<u>Current Discount Rate (6.90%)</u>	<u>Discount Rate +1% (7.90%)</u>
Miscellaneous	\$ 429,411	\$ 179,984	\$ (128,401)

COTTONWOOD WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 7: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District's ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 8: Related Party Transactions

The District Board of Directors receive their water for \$5 per month regardless of usage.

Note 9: Commitments and Contingent Liabilities

Contingent Liabilities

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

Commitments

The District had open professional service contracts as of June 30, 2023.

Note 10: Subsequent Events

Subsequent events were evaluated through December 13, 2023, the date which these financial statements were available for distribution.

COTTONWOOD WATER DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2023**

<u>Reporting Date</u>	<u>District's proportion of the net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
6/30/2015	0.00319%	\$78,869	\$122,217	64.53%	80.14%
6/30/2016	0.00246%	\$67,386	\$130,870	51.49%	87.62%
6/30/2017	0.00290%	\$100,582	\$149,148	67.44%	84.74%
6/30/2018	0.00319%	\$125,842	\$152,297	82.63%	80.25%
6/30/2019	0.00318%	\$119,924	\$165,814	72.32%	83.74%
6/30/2020	0.00344%	\$137,712	\$152,299	90.42%	81.62%
6/30/2021	0.00372%	\$156,838	\$165,213	94.93%	68.32%
6/30/2022	0.00565%	\$107,239	\$176,799	60.66%	67.62%
6/30/2023	0.00385%	\$179,984	\$190,129	94.66%	77.90%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

COTTONWOOD WATER DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS LIABILITY
JUNE 30, 2023**

<u>Reporting Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
6/30/2015	\$10,777	(\$10,777)	\$0	\$122,217	8.82%
6/30/2016	\$11,589	(\$11,589)	\$0	\$130,870	8.86%
6/30/2017	\$14,211	(\$14,211)	\$0	\$149,148	9.53%
6/30/2018	\$15,331	(\$15,331)	\$0	\$152,297	10.07%
6/30/2019	\$20,173	(\$20,173)	\$0	\$165,814	12.17%
6/30/2020	\$21,829	(\$21,829)	\$0	\$152,299	14.33%
6/30/2021	\$26,614	(\$26,614)	\$0	\$165,213	16.11%
6/30/2022	\$30,792	(\$30,792)	\$0	\$176,799	17.42%
6/30/2023	\$38,929	(\$38,929)	\$0	\$190,129	20.48%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.