

**HUMBOLDT BAY MUNICIPAL
WATER DISTRICT**

EUREKA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Humboldt Bay Municipal Water District
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Humboldt Bay Municipal Water District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Humboldt Bay Municipal Water District's basic financial statements as listed in the table of contents. The prior year summarized information has been derived from Humboldt Bay Municipal Water District's June 30, 2017 financial statements and, in our report dated April 11, 2017, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. 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 our 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, we consider internal control relevant to Humboldt Bay Municipal Water District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Humboldt Bay Municipal Water District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-10) and the required supplementary information (page 34-37), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2019, on our consideration of Humboldt Bay Municipal Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Humboldt Bay Municipal Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humboldt Bay Municipal Water District's internal control over financial reporting and compliance.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 30, 2019

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2018

The purpose of this section of the financial statements is to present management's discussion and analysis of the Humboldt Bay Municipal Water District's (District) financial performance during the fiscal year that ended on June 30, 2018. We recommend that readers review this in conjunction with the remainder of the financial statements.

INTRODUCTION AND BACKGROUND

We would first like to provide a brief overview of the District and the customers served which will provide a context for the financial statements and the discussion which follows.

The Regional Water System:

The District was formed in 1956 pursuant to the Municipal Water District Act of the California Water Code. The District completed construction of the regional water system in 1961, and service commenced to the Cities of Eureka and Arcata and two pulp mills on the Samoa Peninsula. Since the initial construction, a number of additions and improvements to the regional system have been made, and additional wholesale customers have joined the regional system. Since inception, this regional water system has efficiently and reliably served the municipal and industrial water needs of customers in the Humboldt Bay region.

The regional water system includes the following components: R.W. Matthews Dam (which forms Ruth Lake) and the Gosselin Power House, in Trinity County; and the following facilities in Humboldt County: 1) diversion works on the Mad River northeast of Arcata capable of supplying 75 million gallons per day, 2) treatment facilities, including the Lloyd L. Hecathorn Turbidity Reduction Facility, 3) over 35 miles of pipeline infrastructure around the Humboldt Bay area to deliver water to the wholesale customers, and 4) extensive communication and control systems to operate and control the regional system including the John R. Winzler Operations and Control Center.

Customers Served and Associated Wholesale Water Contracts:

The District supplies treated domestic water to seven municipal agencies on a wholesale basis. The municipalities served by the District are the Cities of: Arcata, Blue Lake and Eureka, and the Community Services Districts of: Fieldbrook/Glendale, Humboldt, Manila and McKinleyville. Via the wholesale relationship, the District serves water to an estimated residential population of 88,000 (approximately 65% of the entire County), and to numerous businesses, industries and educational institutions.

The District provides retail water service to about 200 customers who reside outside the service territory of other water purveyors, but are located in close proximity to District facilities.

The District also has facilities to supply untreated water to customers on the Samoa Peninsula. The District was serving one wholesale industrial customer (pulp mill) until it ceased operations on October 15, 2008.

The District has long-term contracts in place with each of its seven wholesale municipal customers. These 20-year contracts were recently amended, and have an effective date of July 1, 2017. These contracts will be in place until June 30, 2037, with an opportunity to extend for another ten years.

These contracts define the terms and conditions by which the District provides water service to its customers. The contracts specify that all operating, maintenance and capital costs associated with the regional water system are paid for by the wholesale customers. The contracts also specify the manner in which these costs are allocated *among* the wholesale customers. Furthermore, they specify that most revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale customers, and thus offset the costs that the wholesale customers otherwise pay. Examples of such revenues which are credited back to the wholesale customers include the District's share of 1% property taxes, a portion of power sales from the hydro-electric facility, interest income, revenues associated with retail water service, and other miscellaneous revenues.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2018

A summary of the current cost allocation provisions of the wholesale contract is as follows:

| Type of Cost | Municipal Customers' Cost Share | Industrial Customer(s) Cost Share |
|--|--|--|
| Debt Service for Turbidity Reduction Facility | 100% | 0% |
| Operation, Maintenance and Capital Expenditures associated with drinking water treatment facilities (i.e. facilities associated with providing safe drinking water in accordance with federal and state requirements) | 100% | 0% |
| Operation, Maintenance and Capital Expenditures associated with all other aspects of the regional water supply, pumping and distribution system (other than power for pumping water) *Change in % due to pulp mill closure. | 55% increased to 100% effective April 1, 2009* | 45% decreased to 0% effective April 1, 2009* |
| Power Costs for Pumping Water | In proportion to actual power use. | n/a |

Additionally, the wholesale contracts provide that “Additions to Reserves” may be charged to the wholesale customers should the District need to replenish its General Reserve level. There were \$100,000 in charges for additions to reserves to the wholesale customers for both FY2014-15 and FY2015-16; \$200,000 in FY2016-17, and in FY2017-18 the charges for additions to reserves to the wholesale customers was \$350,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of several components: a) the Statements of Net Position, b) the Statements of Revenues, Expenses, and Changes in Net Position, and c) the Statements of Cash Flows. These financial statements present the District’s financial position on an enterprise fund basis. An enterprise fund accounts for goods or services which are provided to outside parties – in the District’s case, this is wholesale and retail water service.

BASIC FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business. These statements offer short- and long-term financial information about District activities.

The Statement of Net Position includes all of the District’s assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2018

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations over the past year and can be used to determine the District's general financial well-being and whether the District has recovered its costs through its water charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and the changes in cash resulting from operations and investments. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

There may be minor rounding differences between the following tables and the financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position was \$20,513,368 as of June 30, 2018, a decrease of (\$2,542,737) compared to June 30, 2017.
- Revenues were \$7,913,077, a decrease of (\$608,370) from FY 2016-17.
- Expenses were \$7,385,502, an increase of \$1,370,479 from FY 2016-17.

DISCUSSION AND ANALYSIS

Our analysis of the District begins on page 10 of the financial statements. The Statements of Net Position present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. A summary of the District's Condensed Statements of Net Position is presented in Table 1 on the next page.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2018

| TABLE 1 | | | | |
|---|---------------------|---------------------|----------------------|----------------|
| CONDENSED STATEMENTS OF NET POSITION | | | | |
| | FY 2017-2018 | FY 2016-2017 | Change | |
| | | | \$ | % |
| ASSETS | | | | |
| Current Assets | \$2,058,966 | \$2,291,029 | (\$232,063) | -10.13% |
| Restricted Cash & Investments | 3,274,380 | 3,906,466 | (632,086) | -16.18% |
| Land, Property & Equipment (net Accum. Depr.) | 25,191,635 | 24,322,674 | 868,961 | 3.57% |
| Total Assets | 30,524,981 | 30,520,169 | 4,812 | 0.02% |
| Deferred Outflows of Resources | 1,281,831 | 957,042 | 324,789 | 33.94% |
| LIABILITIES | | | | |
| Current Liabilities | 1,247,501 | 1,323,361 | (75,860) | -5.73% |
| Unearned grant revenue | - | - | - | 0.00% |
| Post-Retirement Health Benefits Obligation | 4,057,579 | 796,174 | 3,261,405 | 409.63% |
| Net Pension Liability | 3,011,029 | 2,602,142 | 408,887 | 15.71% |
| Long-term Debt | 2,852,969 | 3,549,293 | (696,324) | -19.62% |
| Total Liabilities | 11,169,078 | 8,270,970 | 2,898,108 | 35.04% |
| Deferred Inflows of Resources | 124,366 | 150,136 | (25,770) | -17.16% |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 21,642,340 | 20,080,839 | 1,561,501 | 7.78% |
| Restricted (for debt service) | 710,329 | 708,671 | 1,658 | 0.23% |
| Restricted (for capital projects) | 918,610 | 1,765,845 | (847,235) | -47.98% |
| Restricted (for credits to municipalities) | 38,662 | 445,412 | (406,750) | -91.32% |
| Unrestricted | (2,796,573) | 55,338 | (2,851,911) | -5,153.62% |
| TOTAL NET POSITION | \$20,513,368 | \$23,056,105 | (\$2,542,737) | -11.03% |

As can be seen from the table above, the net position as of June 30, 2018 was \$20,513,368, a decrease of (\$2,542,737) as compared to June 30, 2017. The majority of this decrease is related to the implementation of GASB 75 related to post employment retiree health benefits.

The largest portion of the District's net position is its investment in capital assets called property and equipment (e.g., land, buildings, equipment, and water system infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water services to its wholesale and retail customers, and consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to satisfy these liabilities.

The Statements of Revenues, Expenses, and Changes in Net Position (page 12) present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes, or earned but unused vacation leave).

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2018

A summary of the District's Condensed Statements of Revenues, Expenses, and Changes in Net Position is presented in Table 2.

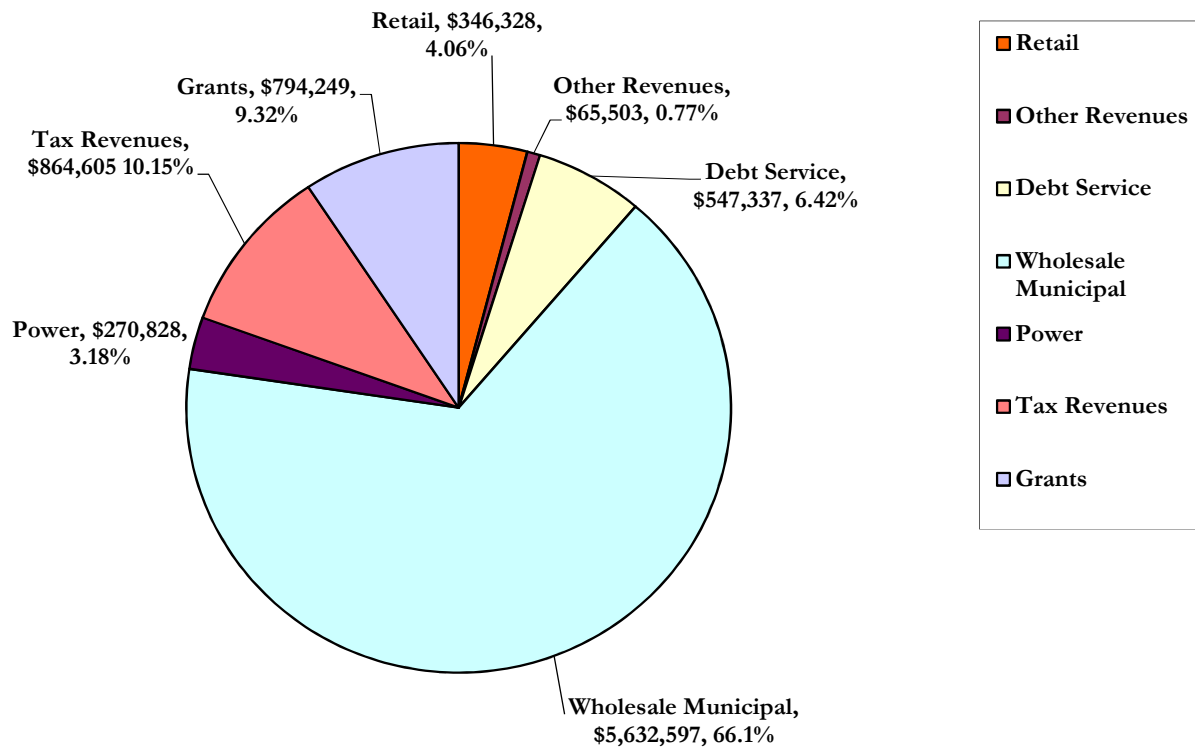
| TABLE 2 | | | | |
|---|---------------------|---------------------|----------------------|----------------|
| CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION | | | | |
| | FY 2017-2018 | FY 2016-2017 | Change | |
| | | | \$ | % |
| REVENUES | | | | |
| *Operating: | | | | |
| Water Sales | \$5,491,931 | \$5,978,925 | (\$486,994) | -8.15% |
| Power Sales | 424,774 | 270,828 | 153,946 | 56.84% |
| SRF Debt Service Receipt | 547,337 | 547,337 | - | 0.00% |
| Other Operating | 19,255 | 18,674 | 581 | 3.11% |
| *Non-Operating: | | | | |
| Taxes | 854,051 | 864,605 | (10,554) | -1.22% |
| Interest Income | 49,325 | 46,829 | 2,496 | 5.33% |
| Grant Revenues | 526,404 | 794,249 | (267,845) | -33.72% |
| Total Revenues | 7,913,077 | 8,521,447 | (608,370) | -7.14% |
| EXPENSES | | | | |
| Operating expense | 6,348,732 | 4,999,669 | 1,349,063 | 26.98% |
| Non-operating expense | 11,047 | 18,275 | (7,228) | -39.55% |
| Depreciation | 1,261,601 | 1,246,326 | 15,275 | 1.23% |
| Less Reimbursements | (235,878) | (249,247) | 13,369 | -5.36% |
| Total Expenses | 7,385,502 | 6,015,023 | 1,370,479 | 22.78% |
| Change in Net Position | 527,575 | 2,506,424 | (1,978,849) | -78.95% |
| Beginning Net Position | 19,985,793 | 20,549,681 | (563,888) | -2.74% |
| Ending Net Position | \$20,513,368 | \$23,056,105 | (\$2,542,737) | -11.03% |

While the Statements of Net Position show the changes in financial position, the Statements of Revenues, Expenses, and Changes in Net Position explain the nature and source of these changes. As shown in Table 2, the change in net position decreased by (\$2,542,737) compared to the prior year. The changes in revenues and expenses which contributed to this change in net position are reflected in the above line-item detail.

As a supplement to the Statements of Revenues, Expenses, and Changes in Net Position, Chart 1 presents operating and non-operating revenues earned in FY 2017-18 by category along with the proportionate share of the total revenue each category represents. The total revenues reflected in Chart 1 are \$7,913,077. The municipal customer receipts of \$547,337 for repayment of the District's SRF Loan for the Turbidity Reduction Facility, which is further described in the subsequent Long-Term Debt section and the grant funding receipts of \$526,404, are associated with repayment of long-term debt and special funding respectively and not current operations. The major fluctuations in revenues and expenses relate to the increased grant funding and related expenditures. The power revenue was higher due in part to increased rainfall and in part to a full-year of ReMat contract revenue.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2018

Chart 1 Revenues Received by Category for FY 2017-18



Total Revenues \$8,521,447

PROPERTY AND EQUIPMENT

The District has invested approximately \$61,600,000 in a broad range of infrastructure for the regional water system. Table 3 presents a summary of the District's property and equipment. The total increase in the current year property and equipment additions in the amount of \$2,130,562 is mostly attributable to the *Buildings & Improvements in Progress* account. That account balance was \$903,252 at June 30, 2018, a decrease of \$2,296,581 at year-end.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2018

| TABLE 3 | | | | |
|---|---------------------|---------------------|------------------|--------------|
| PROPERTY AND EQUIPMENT | | | | |
| | FY 2017- 2018 | FY 2016- 2017 | Change | |
| | | | \$ | % |
| Buildings | \$2,388,724 | \$1,709,024 | \$679,700 | 39.77% |
| Equip - Auto/Mobile/Office/Radio/Tools | 2,511,934 | 2,827,168 | (315,234) | -11.15% |
| Water System Infrastructure (excludes land) | 59,205,496 | 55,368,978 | 3,836,518 | 6.93% |
| Total Property and Equipment | 64,106,154 | 59,905,170 | 4,200,984 | 7.01% |
| Less Accumulated Depreciation | (41,189,743) | (40,154,301) | (1,035,442) | 2.58% |
| Add Projects in Progress | 903,252 | 3,199,833 | (2,296,581) | -71.77% |
| Total Property & Equipment (net of depr) | \$23,819,663 | \$22,950,702 | \$868,961 | 3.79% |

LONG-TERM DEBT

At June 30, 2018 year-end, the District has two long-term notes payable outstanding for a total amount of \$3,400,305. The first has an outstanding balance of \$3,010,353. This is the SRF Loan used to finance the Turbidity Reduction Facility. The SRF loan carries no interest (i.e. zero percent), and has a repayment term of 20 years. The initial SRF loan balance at its inception in 2004 was \$10,946,736. The debt service for the SRF Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 1).

The second note payable has an outstanding balance of \$389,952. This is the Water System Improvement Loan or U.S. Bank loan, used to finance various improvements to the water system consisting generally of well and pump improvements, and pipeline replacement. The U.S. Bank loan carries interest at 2.63%, and has a repayment term of 10 years. The District makes semi-annual payments of \$81,094 including principal and interest to U.S. Bank, for a resulting annual payment of \$162,188. The Water System Improvement loan balance at its inception in 2011 was \$1,418,000. The debt service for the Water System Improvement Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 2).

DESCRIPTION OF CURRENTLY KNOWN FACTS OR CONDITIONS THAT MAY HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

Pulp Mill Closure

On October 15, 2008 (FY2008-09), the District's only industrial customer, Evergreen Pulp, shut down its pulp mill. The pulp mill was sold on February 6, 2009 to Samoa Acquisition Corporation (SAC). The District had an interim agreement with the new owner until April 30, 2009. The District shut off the water supply to the mill on May 1, 2009. The mill is not expected to reopen in the foreseeable future. This industrial property was recently acquired by the Humboldt Bay Harbor Recreation and Conservation District for development.

The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment facilities. For 2008-09, the mill's contribution to the cost of the regional water system would have been approximately \$1.1 million.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2018

Under the terms of the District's Ordinance 16 contracts, costs were shifted to the remaining wholesale customers (seven municipal agencies) beginning April 1, 2009. Whereas the municipalities had previously been paying 55% of costs, they now pay 100%.

In order to replace the revenue that was being generated by its former industrial customers, the District continues to search for possible new customers or uses for the water that is now available. Any water use options that are deemed feasible will likely take several years to implement.

Capital Improvement Program

The District has implemented a substantial capital improvement program (CIP) given the age of its infrastructure (50 years). Mechanisms to finance CIP projects include pursuing grant funding, issuing new long-term debt, and working with wholesale municipal customers to increase revenues through water rates.

The first completed large infrastructure project undertaken was the Ranney Collector #3 Rehabilitation project. For financing purposes this was bundled with the Techite Pipeline Replacement project. Total projected funding needs of \$5,165,000 were met using a combination of Federal Emergency Management Agency (FEMA) grant funding, reserve funds, advance charges collected from the municipal customers, and bank loan.

The Emergency Intertie project was a multijurisdictional project led by the District. The project partners are: HBMWD, the City of Arcata, the City of Eureka and the McKinleyville Community Services District. This project installed new water transmission interconnections between the agencies to allow for water supply redundancy in the event of a supply line disruption. A State of California Department of Public Health Proposition 50 grant in the amount of \$3,648,550 was received for this project. The construction was completed during FY2014-15 and the assets created via this construction project were transferred to the respective agencies in accordance with the terms and conditions of the Special Facilities Agreement (May 3, 2013).

The next significant infrastructure project was the replacement of the 1MG domestic reservoir roof. This tank has been in service for almost fifty years and was showing signs of stress and corrosion. This project replaced the entire roof and repainted the reservoir to extend its' life another 40-50 years. This project was completed in FY2017-18. Funding for this project was a combination of advance charges collected from the municipal customers and by the District through water rates.

The replacement of the District's pipeline that crosses over the Mad River to serve the City of Blue Lake and the Fieldbrook-Glendale Community Services District is the next large scheduled CIP project. The project cost is estimated to be \$3,573,000. To complete this project, the District has been awarded a State of California Department of Water Resources Proposition 84 grant via the North Coast Integrated Regional Water Management Plan in the amount of \$700,000. Similar to the Techite Replacement project (above), the District has received a FEMA Hazard Mitigation grant in the amount of \$2,679,750. This project went out to bid in FY2017-18 and was completed early FY2018-19.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have a question about this report or need additional financial information, contact the Business Manager or General Manager at Humboldt Bay Municipal Water District, 828 Seventh Street, Eureka, California, 95501.

BASIC FINANCIAL STATEMENTS

Humboldt Bay Municipal Water District
STATEMENT OF NET POSITION
 June 30, 2018
 (With Comparative Totals for June 30, 2017)

| <u>ASSETS</u> | 2018 | 2017 |
|---|---------------|---------------|
| Current assets: | | |
| Cash and investments | \$ 717,598 | \$ 1,303,374 |
| Restricted cash and investments: | 3,274,380 | 3,906,466 |
| Total cash and investments | 3,991,978 | 5,209,840 |
| Accounts receivable | 612,431 | 609,814 |
| Interest receivable | - | 12,265 |
| Grants Receivable | 540,722 | 183,038 |
| Inventory | 51,928 | 47,153 |
| Prepaid items | 136,287 | 135,385 |
| Total current assets | 5,333,346 | 6,197,495 |
| Capital assets: | | |
| Non-depreciable assets | 2,275,224 | 4,571,805 |
| Depreciable assets (net of depreciation) | 22,916,411 | 19,750,869 |
| Total assets | 30,524,981 | 30,520,169 |
| <u>DEFERRED OUTFLOWS</u> | | |
| Deferred outflows related to pensions | 1,196,311 | 957,042 |
| Deferred outflows related to pensions | 85,520 | - |
| Total deferred outflows | 1,281,831 | 957,042 |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Accounts payable | 97,631 | 212,032 |
| Compensated absences | 316,887 | 284,539 |
| Accrued expenses | 136,659 | 134,308 |
| Total current liabilities | 551,177 | 630,879 |
| Long-term liabilities: | | |
| Due within one year | 696,324 | 692,482 |
| Due in more than one year | 2,852,969 | 3,549,293 |
| Other post-employment benefits | 4,057,579 | 796,174 |
| Net pension liability | 3,011,029 | 2,602,142 |
| Total long-term liabilities | 10,617,901 | 7,640,091 |
| Total liabilities | 11,169,078 | 8,270,970 |
| <u>DEFERRED INFLOWS</u> | | |
| Deferred inflows related to pensions | 124,366 | 150,136 |
| Net position: | | |
| Invested in capital assets, net of related debt | 21,642,340 | 20,080,839 |
| Restricted for debt service | 710,329 | 708,671 |
| Restricted for capital projects | 918,610 | 1,765,845 |
| Restricted for credits to municipalities | 38,662 | 445,412 |
| Unrestricted | (2,796,573) | 55,338 |
| Total net position | \$ 20,513,368 | \$ 23,056,105 |

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

Humboldt Bay Municipal Water District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

| | 2018 | 2017 |
|--|---------------|---------------|
| Operating revenues: | | |
| Municipal customer water sales | \$ 5,187,851 | \$ 5,632,597 |
| Retail customer water sales | 304,080 | 346,328 |
| Debt service receipts | 547,337 | 547,337 |
| Total water sales | 6,039,268 | 6,526,262 |
| Power sales | 424,774 | 270,828 |
| Other operating revenues | 19,255 | 18,674 |
| Total operating revenues | 6,483,297 | 6,815,764 |
| Operating expenses: | | |
| Salaries and benefits | 3,700,094 | 2,883,081 |
| Employee retirement contributions | 578,193 | 432,030 |
| Power and pumping | 672,751 | 688,010 |
| Engineering | 124,340 | 108,895 |
| Materials and supplies | 87,364 | 133,534 |
| Repairs and maintenance | 310,522 | 178,873 |
| Auto and travel expenses | 49,411 | 37,523 |
| Insurance | 42,777 | 89,601 |
| Legal and accounting fees | 84,210 | 25,780 |
| Professional assistance | 140,136 | 82,115 |
| Tax and license | 138,960 | 113,922 |
| Training | 81,767 | 61,569 |
| Bad debt | - | 215 |
| Other operating expenses | 338,207 | 164,521 |
| Depreciation | 1,261,601 | 1,246,326 |
| Total operating expenses before reimbursements | 7,610,333 | 6,245,995 |
| Reimbursements for services and costs | (235,878) | (249,247) |
| Total operating expenses | 7,374,455 | 5,996,748 |
| Operating income (loss) | (891,158) | 819,016 |
| Non-operating revenues (expenses): | | |
| Tax revenues | 854,051 | 864,605 |
| Grant revenues | 526,404 | 794,249 |
| Interest revenues | 49,325 | 46,829 |
| Interest expense | (11,047) | (18,275) |
| Total non-operating revenues (expenses) | 1,418,733 | 1,687,408 |
| Changes in net position | 527,575 | 2,506,424 |
| Net position, beginning of period | 23,056,105 | 20,549,681 |
| Prior period adjustment | (3,070,312) | - |
| Net position, beginning of period restated | 19,985,793 | 20,549,681 |
| Net position, end of period | \$ 20,513,368 | \$ 23,056,105 |

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

Humboldt Bay Municipal Water District

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 6,716,558 | \$ 6,779,145 |
| Payments to suppliers | (2,190,523) | (1,407,098) |
| Payments to employees | <u>(3,994,167)</u> | <u>(3,315,111)</u> |
| Net cash provided (used) by operating activities | <u>531,868</u> | <u>2,056,936</u> |
| Cash flows from non-capital financing activities: | | |
| Taxes and assessments | <u>854,051</u> | <u>864,605</u> |
| Net cash provided (used) by non-capital financing activities | <u>854,051</u> | <u>864,605</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (2,130,562) | (2,975,156) |
| Receipts of capital grants | 168,720 | 639,164 |
| Interest expense | (11,047) | (18,275) |
| Payment on current portion of bonds | <u>(692,482)</u> | <u>(688,803)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(2,665,371)</u> | <u>(3,043,070)</u> |
| Cash flows from investing activities: | | |
| Interest earned | <u>61,590</u> | <u>55,549</u> |
| Net cash provided by investing activities | <u>61,590</u> | <u>55,549</u> |
| Net increase (decrease) in cash and cash equivalents | (1,217,862) | (65,980) |
| Cash and cash equivalents - beginning of period | <u>5,209,840</u> | <u>5,275,820</u> |
| Cash and cash equivalents - end of period | <u>\$ 3,991,978</u> | <u>\$ 5,209,840</u> |
| Reconciliation of operating income (loss) to net cash provided (used in) operating activities: | | |
| Operating income (loss) | \$ (891,158) | \$ 819,016 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 1,261,601 | 1,246,326 |
| Changes in certain assets and liabilities: | | |
| Accounts receivable | (2,617) | (36,619) |
| Inventory | (4,775) | 27,484 |
| Prepaid items | (902) | (34,189) |
| Accounts payable | (114,401) | 6,334 |
| Accrued expenses | 2,351 | (1,519) |
| Compensated absences | 32,348 | 10,686 |
| Deferred outflows | (324,789) | (549,040) |
| Deferred inflows | (25,770) | (26,728) |
| Net pension liability | 408,887 | 599,832 |
| Other post-employment benefits | 191,093 | 25,358 |
| Unearned income | <u>-</u> | <u>(30,005)</u> |
| Net cash provided (used) by operating activities | <u>\$ 531,868</u> | <u>\$ 2,056,936</u> |

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

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Humboldt Bay Municipal Water District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

The District has no oversight responsibility over any other governmental unit and is not included in any other governmental “reporting entity” as defined in GASB pronouncements. The Board of Directors are elected by the public and have the decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Nature of Activities

The District is a state-authorized special purpose government established to provide water services to the Humboldt Bay region. It was formed in 1956 under provisions of the Municipal Water District Act of 1911. The District provides retail water service to residential customers, and it contracts with seven municipal agencies for the purchase of treated domestic water for resale.

C. Basis of Presentation

The financial statements required by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The District utilizes an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services that are provided to outside parties. The District has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and their reporting in the financial statements.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement Focus/Basis of Accounting (concluded)

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's practice to first use specifically designated restricted resources before using unrestricted resources.

E. Allowance for Doubtful Accounts

The District evaluates the collectability of water sales and grants receivable in order to determine the allowance for doubtful accounts. As of June 30, 2018, the District determined that the various receivables are fully collectible and recorded \$0 for the allowance for doubtful accounts. Based on historical experience, the District does not expect amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

F. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

G. Fair Value Hierarchy

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

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

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

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

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

The District's investment policy has been to invest idle cash in demand deposits, time deposits and the Humboldt County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool is the same as the fair value of the pool shares.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fair Value Hierarchy (concluded)

State statutes authorize the District to invest in obligations of the U.S. Treasury, Federal Agency obligations, commercial paper, the LAIF and other instruments. The Loan and Installment Agreement underlying the issuance of Loans and Installment Purchase Agreements authorize permitted investments consistent with the State of California Government Code but broader in scope than the District's usual investment practices.

The District accounts for cash equivalents in the Humboldt County Treasurer's Investment Pool and the LAIF Pool at cost. Management considers the difference between book value and fair value immaterial. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

H. Capital Assets

Capital assets are defined as assets with an initial cost of \$5,000 and projects costing \$5,000 or more. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets that individually may be below threshold amounts are capitalized if collectively they are above the threshold amount.

Additions to and replacements of capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction, when significant. The costs of betterments or repairs that extend the life of a capital asset are added to capital accounts.

Depreciation of all exhaustible capital assets is charged as an expense against operations, with accumulated depreciation reflected in the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| | |
|--|---------------|
| Dam, pipeline, buildings, water collection system, South Bay extension, Fieldbrook extension, Blue Lake extension, Lindley extension, Essex diversion, hydro plant penstock and piping | 40 Years |
| Pump station and related facilities | 10 - 40 Years |
| Hydro plant turbine and generators | 20 Years |
| Tools and shop equipment, office equipment, pipeline connections, and hydro switchgear and controls | 10 Years |
| Radio communication system and computers | 5 Years |
| Vehicles | 5 - 10 Years |
| Supplemental construction - except valves | 40 Years |
| Supplemental construction - valves | 20 Years |

I. Estimates

The preparation of financial statements in conformity with GAAP 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 amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Investments

The District's adopted investment policy seeks to promote the safety of principal, provide adequate liquidity for operational needs, earn market rates of return on investments consistent with liquidity needs and investment quality, and conform to legal requirements.

The District follows the authority governing investments for municipal governments set forth in the California Government Code, Sections 53601 through 53686. The Code authorizes the District to invest in obligations of the U.S. Treasury in the form of notes, bonds, bills or instruments for which the faith and credit of the United States are pledged for payment. The District may also invest in registered treasury notes, or bonds of the State of California and commercial paper of "prime" quality as defined by California Government Code Section 53635 and as rated by Standard and Poors Corporation or Moody's Commercial Paper Record.

The District's investment policy states that the District will structure its portfolio to meet cash requirements for ongoing operations thereby avoiding the need to sell securities prior to their maturity. The policy does not place formal limits on investment maturities.

K. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by creditors, grantors, laws, or regulations. The District has restricted net position for debt service, advance charges related to capital projects per contracts, and for revenue credits to the seven municipal customers per Ordinance 16.

Unrestricted net position - consists of all other net position that does not meet the definition of "net investment in capital assets" or "restricted net position" and is available for general use by the District. A net position deficit of \$2,796,573 exists at June 30, 2018.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Property Taxes

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Humboldt County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula. The District's tax rate is \$1.00/\$100 of assessed value, the maximum allowable under Proposition 13.

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted by the County. Under this plan, the county auditor/controller distributes 100 percent of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

N. Restricted Assets

Assets that are restricted as to withdrawal or use for other than current operations, for the liquidation of long-term debts or for expenditure in the acquisition or construction of capital assets are separately reported as restricted assets and not as current assets.

O. Pension

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) Plan (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 CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publically available reports that can be obtained.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT

Cash, cash equivalents, and investment at June 30, 2018, consist of the following:

| | 2018 | 2017 |
|-------------------------------|--------------|--------------|
| Cash: | | |
| Demand accounts | \$ 509,274 | \$ 967,686 |
| State Treasurer's Pool (LAIF) | 1,630 | 1,611 |
| County investment pool | 206,694 | 334,077 |
| Total | \$ 717,598 | \$ 1,303,374 |
| | | |
| | 2018 | 2017 |
| Restricted cash: | | |
| U.S. Bank demand accounts | \$ 970,657 | \$ 708,671 |
| County investment pool | 2,303,723 | 3,197,795 |
| Total | \$ 3,274,380 | \$ 3,906,466 |

The U.S. Bank commercial checking account balances are carried at cost. One of the U.S. Bank money market accounts is restricted for servicing the Safe Drinking Water State Revolving Fund (SRF) loan (see Note 7). The District transfers \$136,834 quarterly from a fund in the Humboldt County Treasurer's Investment Pool to the restricted U.S. Bank money market account. U.S. Bank, acting as a fiscal agent, administers the semiannual loan payments for a total annual payment of \$547,337.

Restricted cash and cash equivalents include restrictions imposed by creditors, grantors, laws, regulations, and designations imposed by the Board of Directors. Restricted cash and cash equivalents in the Humboldt County Treasurer's Investment Pool are as follows:

| | 2018 | 2017 |
|--------------------------------------|--------------|--------------|
| Restricted for debt service | \$ 49,817 | \$ 48,785 |
| Restricted for municipalities | 415,547 | 465,452 |
| Restricted for capital projects | 1,838,359 | 2,683,558 |
| Total restricted cash in County Pool | \$ 2,303,723 | \$ 3,197,795 |

Custodial Credit Risk - Deposits:

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

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal depository insurance.

All monies in the Humboldt County Treasurer's Pool are not evidenced by specific securities; and therefore are not subject to custodial credit risk. The average number of days to maturity for investments in the County Pool is 644 days.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT (concluded)

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2018:

| <u>Investment Type</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Exempt</u> | <u>Total</u> |
|-------------------------------|----------------|---------------------|---------------------|---------------------|
| Demand Accounts | \$ - | \$ - | \$ 1,479,931 | \$ 1,479,931 |
| State Treasurer's Pool (LAIF) | - | 1,630 | - | 1,630 |
| County investment pool | - | <u>2,510,417</u> | - | <u>2,510,417</u> |
| Total Investments | <u>\$ -</u> | <u>\$ 2,512,047</u> | <u>\$ 1,479,931</u> | <u>\$ 3,991,978</u> |

Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Humboldt County Treasurer's Pool and LAIF are classified in Level 2 of the fair value hierarchy, is valued using quoted prices for a non-active market portfolio at fiscal year-end. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable from customers at June 30, 2018, consist of the following:

| | |
|---|-------------------|
| Resale customers | |
| City of Eureka | \$ 231,176 |
| City of Arcata | 89,048 |
| Humboldt CSD | 69,988 |
| McKinleyville CSD | 70,741 |
| Others | <u>19,815</u> |
| Subtotal resale customers | 462,768 |
| Maintenance and operations charges to others | 91,275 |
| Domestic customers and others | 29,973 |
| Hydroelectric sales, Pacific Gas and Electric | 20,714 |
| Retiree health insurance | <u>7,701</u> |
| Total accounts receivable | <u>\$ 612,431</u> |

NOTE 4 - LAND

Land at June 30, 2018, consists of land and land rights of the General District, South Bay Water extension, and District No. U-1. There were no changes in land during the year ended June 30, 2018.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 5 - PROPERTY AND EQUIPMENT

Changes in property and equipment during the year ended June 30, 2018, are as follows:

| | Balance at 07/01/17 | Additions | Deletions | Balance at 6/30/18 |
|---|------------------------|---------------------|---------------------|-----------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,371,972 | \$ - | \$ - | \$ 1,371,972 |
| Construction in progress | <u>3,199,833</u> | <u>-</u> | <u>2,296,581</u> | <u>903,252</u> |
| Total capital assets, not being depreciated | <u>4,571,805</u> | <u>-</u> | <u>2,296,581</u> | <u>2,275,224</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,709,024 | 679,700 | - | 2,388,724 |
| Equipment | 2,827,168 | - | 315,234 | 2,851,934 |
| Water System Infrastructure | 39,339,767 | 3,746,659 | - | 43,086,426 |
| Ruth Lake Infrastructure | 10,674,313 | 89,859 | - | 10,764,172 |
| District No. U -1 | <u>5,354,898</u> | <u>-</u> | <u>-</u> | <u>5,354,898</u> |
| Total capital assets, being depreciated | <u>59,905,170</u> | <u>4,516,218</u> | <u>315,234</u> | <u>64,106,154</u> |
| Total accumulated depreciation | <u>(40,154,301)</u> | <u>(1,261,601)</u> | <u>(226,159)</u> | <u>(41,189,743)</u> |
| Total capital assets being depr. - net | <u>19,750,869</u> | <u>3,254,617</u> | <u>89,075</u> | <u>22,916,411</u> |
| Capital assets - net | <u>\$ 24,322,674</u> | <u>\$ 3,254,617</u> | <u>\$ 2,385,656</u> | <u>\$ 25,191,635</u> |

Total depreciation expense charged to operations for the year ended June 30, 2018, was \$1,261,601. All capital assets are depreciable except land and projects in progress.

NOTE 6 - COMPENSATED ABSENCES

Compensated absences consist of estimates of future obligations relating to accumulated unpaid vacation and sick leave compensation. There are predetermined limits to the amount of vacation and sick leave hours that can be accumulated by an employee. The District will pay the employee at the end of each calendar year for any excess vacation time accumulated that year.

Upon retirement, an employee will receive compensation for unused accumulated vacation. The employee also has the option under the District's California Public Employees' Retirement System (CalPERS) contract to convert 100% of the unused sick leave accrual to CalPERS service credit, or to receive a 35% cash payment and convert the remainder to CalPERS service credit. However, if an employee with less than ten years of employment terminates or retires, the unused accumulated sick leave is not eligible for compensation or CalPERS service credit conversion. Compensated absences payable as of June 30, 2018 was \$316,887.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - LONG-TERM NOTES PAYABLE

The following is a summary of changes in long-term debt as of June 30, 2018:

| | Balance at 07/01/17 | Increase | Decrease | Balance at 6/30/18 | Current |
|---------------------------------|------------------------|--------------------|-------------------|-----------------------|-------------------|
| California Safe Drinking Water | | | | | |
| State Revolving Fund (SRF) Note | \$ 3,557,690 | \$ - | \$ 547,337 | \$ 3,010,353 | \$ 547,337 |
| Water System Improvement Loan | 684,085 | - | 145,145 | 538,940 | 148,987 |
| Compensated absences | 284,539 | 32,348 | - | 316,887 | - |
| Other post-employment benefits | 796,174 | 3,261,405 | - | 4,057,579 | - |
| Total | <u>\$ 5,322,488</u> | <u>\$3,293,753</u> | <u>\$ 692,482</u> | <u>\$ 7,923,759</u> | <u>\$ 696,324</u> |

California Safe Drinking Water State Revolving Fund (SRF) Note

The District has a loan with the California Department of Water Resources (acting on behalf of the California Department of Health Services) under the provisions of the California SRF Law of 1997. The proceeds of the SRF loan were used to finance the construction of the Turbidity Reduction Facility. The loan, which matures in January of 2024, carries no interest and has a repayment term of 20 years. The District pays \$547,337 annually in two semiannual payments. A U.S. Bank money market account is restricted for servicing the loan. The debt service for the loan is paid in its entirety by the District's municipal customers. Future debt service on the loan is:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|---------------------|-------------|---------------------|
| 2019 | \$ 547,337 | \$ - | \$ 547,337 |
| 2020 | 547,337 | - | 547,337 |
| 2021 | 547,337 | - | 547,337 |
| 2022 | 547,337 | - | 547,337 |
| 2023 | 547,337 | - | 547,337 |
| 2024 | 547,337 | - | 547,337 |
| Total | <u>\$ 3,284,022</u> | <u>\$ -</u> | <u>\$ 3,284,022</u> |

Water System Improvement Loan

The District has a loan, which matures in September of 2021, with Municipal Finance Corporation (MFC) to finance various capital improvements to the water supply system. Under the ten-year installment sales agreement, the District is obligated to pay semiannual installment payments of principal and interest at the rate of 2.63% per annum on the unpaid principal balance. MFC assigned its rights to receive and enforce the payments under the agreement to U.S. Bank. The debt service for the loan is paid in its entirety by the District's municipal water customers. Future debt service on the loan is:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|-------------------|------------------|-------------------|
| 2019 | \$ 148,987 | \$ 13,201 | \$ 162,188 |
| 2020 | 152,931 | 9,257 | 162,188 |
| 2021 | 156,981 | 6,222 | 163,203 |
| 2022 | 80,041 | 1,053 | 81,094 |
| Total | <u>\$ 538,940</u> | <u>\$ 29,733</u> | <u>\$ 568,673</u> |

Net position restricted for debt service for the years ended June 30, 2018 was \$710,392.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - WHOLESALE WATER CONTRACTS

The District is primarily a wholesale water provider. The District's Ordinance 16 as amended in June 2006 and June 2016 establishes rates, charges, and conditions of service for water sales to the municipal water customers. The costs of constructing, operating, maintaining, repairing and replacing the water treatment facilities and maintaining reasonable reserves are allocated among the municipal customers.

The District has long-term contracts with its seven municipal wholesale customers governing wholesale rates, charges and conditions of service. These seven contracts were recently amended including a new twenty-year term with a ten-year renewal option. The new contracts are effective July 1, 2017 and include the following seven municipal wholesale customers:

- City of Arcata
- City of Blue Lake
- City of Eureka
- Fieldbrook-Glendale Community Services District
- Humboldt Community Services District
- McKinleyville Community Services District
- Manila Community Services District

The District lost its last large industrial customer in February 2009. Beginning April 1, 2009, all costs for the regional water system associated with operation, maintenance, and capital expenditure were shifted to the seven municipal customers. Whereas the municipalities had previously been paying 55% of costs, they currently pay 100%. The rate structure is based on "Price Factor" formulas which proportionally allocates the operating, maintenance and capital costs of the District to each of the wholesale customers. Municipal customers are billed monthly for water usage based on their share of such operating, maintenance and capital costs.

Most revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale municipal customers. These revenues include property tax revenues, a portion of power sales, interest income, retail water service revenues and other miscellaneous revenues. The revenue credit is applied ratably on a monthly basis during the course of the year.

The seven wholesale municipal customers are initially billed based on the District's approved budget, with the costs spread out evenly across the fiscal year. At year-end, the budgeted costs are reconciled with actual costs. Any underpayments or overpayments are divided into even monthly installments and applied to the municipalities' billing during the course of the following year. As of June 30, 2018, the municipal customers overpaid \$398,281, for operating, maintenance, and capital costs. Overpayments in the amount of \$445,412 were credited to the municipalities' 2016/2017 billings. At June 30, 2018, total net position restricted for credits to the municipalities was \$398,281.

The municipal water customers may be charged in advance in order to fund future capital projects. For the year ended June 30, 2018, the municipal customers had balances in advance charges of \$918,610 for improvement projects.

Additions to the District's general reserves may be charged to the wholesale customers should the District need to replenish its general reserve level. For the year ended June 30, 2018, the District charged the wholesale customers \$350,000.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - WHOLESALE WATER CONTRACTS (concluded)

During the fiscal year ended June 30, 2018, the contracts with the municipal customers were amended. The District's Ordinance 16 included a provision that limits capital expenditures. Based on the District's development and implementation of its Capital Improvement Plan (CIP), this limit was no longer practical. To address this and to reduce the need for large fluctuations in costs to the municipalities, the limit on capital expenditures was replaced with a quinquennial update for the Capital Improvement Plan beginning in 2017. This process includes providing a copy to the individual municipalities no later than February 28 for their use in their own budget planning, analysis and updates of water rates. An additional change with the amended contracts includes revising the schedule for the quinquennial revision of the Peak Rate Allocation to commence again on July 1, 2017 (to address revenue changes in 2016 in the Manila Community Services District).

NOTE 9 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employee or other beneficiary) placed in trust for the benefit of the participants or their beneficiaries, and are not the assets of the District.

Effective January 1, 2013, the District contributes \$50 per month for each employee who is not currently participating in the deferred compensation program. The District will provide a contribution match of up to \$100 per month for employees who are participating in the deferred compensation program.

The District has a fiduciary responsibility to the participating employees in administration of the plan, but is not liable for losses arising from depreciation or other declines in the value of the plan assets.

NOTE 10 - PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost Sharing Multiple-Employer Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all others). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. 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.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 10 - PENSION PLAN (continued)

A. General Information about the Pension Plan (concluded)

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 the Plan are applied as specified by the Public Employees' Retirement Law.

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

| | Miscellaneous 1 st Tier | Miscellaneous PEPRA |
|---|---------------------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 2% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 – 63 | 52 - 67 |
| Monthly benefits, as a % of annual salary | 1.426% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 7.000% | 6.250% |
| Required employer contribution rates | 8.418% | 6.533% |

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund, if applicable. The dollar amounts are billed on a monthly basis. The District's required contribution for the unfunded liability was \$170,965 for the fiscal year ended June 30, 2018

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.

The District's contributions to the plan recognized as a part of pension expense for the year ended June 30, 2018 were \$408,926.

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

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$3,011,029.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 10 - PENSION PLAN (continued)

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

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

| <u>District's Miscellaneous Plan</u> | <u>Miscellaneous</u> |
|--------------------------------------|----------------------|
| Proportion - June 30, 2016 | 0.0749% |
| Proportion - June 30, 2017 | 0.0764% |
| Change – Increase (Decrease) | 0.0015% |

For the year ended June 30, 2018, the District recognized pension expense of \$578,277. At June 30, 2018, 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 |
|--|--------------------------------------|-------------------------------------|
| Pension contributions subsequent to the measurement date | \$ 434,427 | \$ - |
| Changes in assumptions | 516,223 | 39,362 |
| Differences between actual and expected experience | 4,161 | 59,607 |
| Net differences between projected and actual earning on plan investments | 116,749 | - |
| Change in employer's proportion | 52,298 | 17,068 |
| Net differences between the employer's actual contributions and the employer's proportionate share of contributions | 72,453 | 8,331 |
| Total | \$ 1,196,311 | \$ 124,368 |

\$434,427 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year Ended June 30</u> | | |
|---------------------------|----|----------|
| 2019 | \$ | 153,72 |
| 2020 | | 348,130 |
| 2021 | | 204,978 |
| 2022 | | (69,313) |
| 2023 | | - |
| Thereafter | | - |

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 10 - PENSION PLAN (continued)

C. Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | 3.3% - 14.2% ⁽¹⁾ |
| Investment Rate of Return | 7.00% ⁽²⁾ |
| Mortality | Derived from CalPERS Membership Data for all Funds ⁽³⁾ |

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experiences Study can be found on the CalPERS website.

Change of Assumptions

In 2017, the accounting discount rate was reduced from 7.65 to 7.15 percent.

D. Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The crossover test results can be found on CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 10 - PENSION PLAN (continued)

D. Discount Rate (concluded)

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 PERF cash flows. Using historical returns on all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10⁽¹⁾</u> | <u>Real Return Years 11+⁽²⁾</u> |
|-------------------------------|-------------------------------------|---|--|
| Global Equity | 47.0% | 4.90% | 5.38% |
| Global Fixed Income | 19.0% | 0.80% | 2.27% |
| Inflation Sensitive | 6.0% | 0.60% | 1.39% |
| Private Equity | 12.0% | 6.60% | 6.63% |
| Real Estate | 11.0% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.0% | 3.90% | 5.36% |
| Liquidity | 2.0% | (0.40)% | (0.90)% |
| Total | <u>100.00%</u> | | |

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

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

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

The following presents the District's proportionate share of the net pension liability for the Plan, 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% | Current Discount Rate | Discount Rate +1% |
|--------------------|-----------------------|--------------------|
| 6.15% | 7.15% | 8.15% |
| <u>\$4,712,647</u> | <u>\$3,011,029</u> | <u>\$1,601,719</u> |

E. Pension Plan Fiduciary Net Position

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

F. Payable to Pension Plan

The District did not have an outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 10 - PENSION PLAN (concluded)

G. Pension Rate Stabilization Program

Establishment of a Section 115 Irrevocable Trust (Pension Trust) for the purpose of assisting with stabilizing the unfunded CalPERS pension liability was approved by the Board of Directors in January 2018. This trust was funded in May 2018 with an initial deposit of \$600,000. The Pension Trust, managed by Public Agency Retirement Services (PARS), is considered a “Pension Rate Stabilization Program,” and is designed to prefund rising pension costs and address the District’s net pension liability. The Pension Trust should help mitigate long-term pension investment volatility, while providing the District with increased local control of assets and investment flexibility to create a more actuarially sound pension plan. The District intends to make annual contributions into the Trust.

The balance in the Trust at June 30, 2018 was \$605,177.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description

The District provides a defined benefit healthcare plan (the “Retiree Health Plan”). The District shoulders a certain percentage of eligible retirees’ actual costs subject to a maximum of \$640 per month.

The duration of retiree benefits provided by the District depends on the date an employee was hired by the District. For all full-time regular employees hired by the District prior to July 8, 2004, the District will pay the medical costs premium during the life of a retiree subject to a maximum of \$640 per month.

For all full-time regular employees hired by the District after July 8, 2004, the District will pay 100% of the medical cost premium during retirement, subject to a maximum of \$640 per month, for a maximum of 10 years or until the retiree reaches age 65, whichever comes first.

All health plan participants are on a group plan rate. In addition to the District’s actual costs, the District is required to recognize an implicit subsidy since the District allows its retirees to participate in the plan. The difference between the group plan rate that the retiree must pay and the actual or estimated individually rated premium for the retiree is the implicit rate subsidy (because the retiree continues to participate in the group plan, an implicit rate subsidy exists on the part of the employer).

B. Funding Policy

The District’s Board of Directors will not be funding the plan in the current year but will follow a pay-as-you-go approach. The Board will review the funding requirements and policy annually.

Membership of the District as of the valuation date consisted of the following:

| | |
|--|------------------|
| Active plan members | 27 |
| Inactive employees or beneficiaries currently receiving benefit payments | <u>13</u> |
| Total | <u><u>40</u></u> |

Contribution

As of June 30, 2018, the District has accumulated \$-0- in an irrevocable trust toward this liability.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017.

D. Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

| | |
|---|--|
| Discount rate | 2.92% |
| Inflation | 2.75% |
| Aggregate salary increases (individual salary increases based on CalPERS) | 3.25% |
| Investment rate of return | 2.92% |
| Mortality rates | Based on Muni 20 Year Rate Index |
| Healthcare cost trend rate | 7.50% in the first 1 year, trending down to 5.0% over later years. |

E. Discount Rate

The cash flows of the OPEB plan were projected to future years, assuming that the District will contribute an amount so that the assets always exceed expected benefits to retirees. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 2.92%.

The long-term expected rate of return on OPEB investments was determined using Muni 20 Year Rate Index expected long-term mean rate of return.

F. Change in the Net OPEB Liability

| | Increase (Decrease) | | |
|---|--------------------------------|---------------------------------------|--|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability/(Asse t) (c) = (a) - (b) |
| Service cost | \$ 122,984 | \$ - | \$ 122,984 |
| Interest | 122,441 | - | 122,441 |
| Benefit payments, including refunds of employee contributions | (155,236) | - | (155,236) |
| Change in assumptions | <u>100,904</u> | - | <u>100,904</u> |
| Net change in total OPEB liability | 191,093 | - | 191,093 |
| Values at June 30, 2017 | <u>3,866,486</u> | - | <u>3,866,486</u> |
| Values at June 30, 2018 | <u>\$ 4,057,579</u> | <u>\$ -</u> | <u>\$ 4,057,579</u> |

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (continued)

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

The net OPEB Liability of the District, as well as what the District's net OPEB Liability would be if it were calculated using a discount rate that is one percentage point lower (1.92%) or one percentage point higher (3.92%) follows:

| Plan's Net OPEB Liability/(Asset) | | |
|-----------------------------------|----------------------------------|-------------------------------|
| Discount Rate - 1% (1.92%) | Current Discount Rate (2.92%) | Discount Rate + 1% (3.92%) |
| \$ 4,615,533 | \$ 4,057,579 | \$ 3,596,239 |

The following presents the Net OPEB Liability (NOL) as well as what the NOL would be if it were calculated using healthcare cost trend rates that are 1-percentage-point higher or lower than the current healthcare cost trend rates, as of June 30, 2018.

| Plan's Net OPEB Liability/(Asset) | | |
|-----------------------------------|-----------------------------|-----------------------------|
| Healthcare Cost | | |
| 1% Decrease 5.5% to 6.5% | Trend Rates 6.5% to 7.5% | 1% Increase 7.5% to 8.5% |
| \$ 3,463,440 | \$ 4,057,579 | \$ 4,884,743 |

H. OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$260,807. At June 30, 2018, the District reported deferred inflows of resources from OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| OPEB contributions subsequent to measurement date | \$ - | \$ - |
| Differences between actual and expected experience | - | - |
| Changes in assumptions | 85,522 | - |
| Net differences between projected and actual earnings on OPEB plan investments | - | - |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | - | - |
| Total | \$ 85,522 | \$ - |

\$0 reported as deferred outflows of resources related to contributions subsequent to measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (concluded)

H. OPEB Expense and Deferred Inflows of Resources Related to OPEB (concluded)

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

| <u>Fiscal Year Ended</u> | | |
|--------------------------|----|--------|
| 6/30/19 | \$ | 15,382 |
| 6/30/20 | | 15,382 |
| 6/30/21 | | 15,382 |
| 6/30/22 | | 15,382 |
| Thereafter | | 8,612 |

Additional information relating to the District's Retiree Health Plan and required OPEB disclosures can be obtained from the District's publicly available Comprehensive Annual Financial Report that may be obtained by contacting the Finance Director or General Manager at Humboldt Bay Municipal Water District, 828 Seventh Street, Eureka, California 95502-0095.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss is variable as to the deductible amount per occurrence. Liability losses up to \$1 million and property losses up to \$50,000, are covered through a pooled self-insurance program, administered by the Association of California Water Agencies - Joint Powers Insurance Authority (ACWA-JPIA). Through participation in ACWA-JPIA, the District is covered by commercial liability insurance for losses in excess of \$1 million, up to an insured maximum of \$60 million. Separately, the District insures for property damages in excess of the pooled limit of \$1 million, with commercial insurance for losses up to \$100 million.

The ACWA-JPIA began operations on October 1, 1979, and has continued without interruption since that time. The District is one of approximately two hundred and eighty-eight districts participating in the pool. The responsibilities of the ACWA-JPIA and the District are as follows:

Responsibilities of the ACWA-JPIA:

- a. Provide insurance coverage as necessary.
- b. Assist members in obtaining insurance coverage for risks not included within the coverage of the ACWA-JPIA.
- c. Assist each member's designated risk manager with the implementation risk management function.
- d. Provide loss prevention and safety consulting services to members as required.
- e. Provide claims adjusting and subrogation services for claims covered by the ACWA-JPIA's joint protection programs.
- f. Provide loss analysis and control in order to identify high exposure operations and to evaluate proper levels of self-retention and deductibles.
- g. Review members' contracts to determine sufficiency of indemnity and insurance provisions when requested.
- h. Conduct risk management audits to review the participation of each member in the programs.
- i. The ACWA-JPIA shall have such other responsibilities as deemed necessary by the Board of Directors and Executive Committee (of the ACWA-JPIA).

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 12 - RISK MANAGEMENT (concluded)

Responsibilities of the District:

- a. The governing board of each member district shall appoint a representative and at least one alternate representative to the Board of Directors.
- b. Each member shall appoint an employee of the member to be responsible for the risk management function within that member and serve as a liaison between the member and the ACWA-JPIA as to risk management.
- c. Each member shall maintain an active safety officer and/or committee, and shall consider all recommendations of the ACWA-JPIA concerning unsafe practices.
- d. Each member shall maintain its own set of records, including a loss log, in all categories of risk covered by the joint protection program to insure accuracy of the ACWA-JPIA's loss reporting system.
- e. Each member shall pay its deposit premium and premium adjustments within thirty days of the invoice date.
- f. Each member shall provide the ACWA-JPIA with such other information or assistance as may be necessary for the ACWA-JPIA to carry out the joint protection programs.
- g. Each member shall cooperate with and assist the ACWA-JPIA, and any insurer of the ACWA-JPIA, in all matters and covered claims and will comply with all bylaws, rules and regulations adopted by the Board of Directors and Executive Committee of the ACWA-JPIA.

There have been no significant reductions in insurance coverage from the prior year. The amounts of settlements have not exceeded the insurance coverage in each of the past three fiscal years.

NOTE 13 - CONTINGENCIES

The District receives, on a cost-reimbursement basis, federal and state funds to carry out a variety of projects and studies. As a recipient of federal and state funds, the District is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to these programs. All federal and state program expenditures are subject to financial and compliance audits by the awarding agency. Such audits could result in claims against the District for disallowed costs or noncompliance with contract provisions. No provision has been made for any liabilities which may arise from the noncompliance or questioned costs since the amounts, if any, cannot be determined at this time.

NOTE 14 - SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures are required for the year ending June 30, 2018.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2018, the beginning net position has been adjusted by \$3,070,312 to decrease the net position balance as of the beginning of the period. The net OPEB liability was adjusted in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

REQUIRED SUPPLEMENTARY INFORMATION

Humboldt Bay Municipal Water District
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET) MISCELLANOUS
 June 30, 2018

| <u>Measurement Date, June 30</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|--------------|--------------|
| Proportion of the net pension liability | 0.07640% | 0.07490% | 0.07300% | 0.07880% |
| Proportion share of the net pension liability | \$ 3,011,029 | \$ 2,602,142 | \$ 2,002,310 | \$ 1,969,634 |
| Covered - employee payroll | \$ 1,901,128 | \$ 1,730,351 | \$ 1,746,146 | \$ 1,692,541 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 158.38% | 150.38% | 114.67% | 116.37% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.66% | 76.58% | 80.90% | 80.51% |

* Fiscal year 2015 was the 1st year of implementation.

Humboldt Bay Municipal Water District
SCHEDULE OF CONTRIBUTIONS - MISCELLANEOUS

June 30, 2018

| <u>Fiscal Year Ending June 30</u> | <u>Miscellaneous Plan</u> | | | | |
|---|---------------------------|------------------|------------------|------------------|------------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Contractually required contribution (actuarially determined) | \$ 434,427 | \$ 408,926 | \$ 386,697 | \$ 253,791 | \$ 229,022 |
| Contributions in relation to the actuarially determined contributions | <u>(434,427)</u> | <u>(408,926)</u> | <u>(386,697)</u> | <u>(253,791)</u> | <u>(229,022)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered - employee payroll | \$1,963,789 | \$1,901,128 | \$1,730,351 | \$1,746,146 | \$1,692,541 |
| Contributions as a percentage of covered-employee payroll percentage of covered-employee payroll | 22.12% | 21.51% | 22.35% | 14.53% | 13.53% |

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms that applied to all members of the Public

Changes of Assumptions: There were no changes of assumptions.

* Fiscal year 2015 was the 1st year of implementation.

Humboldt Bay Municipal Water District
SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY
AND RELATED RATIOS
For the Year Ended June 30, 2018

| Total OPEB Liability | <u>2018</u> |
|--|----------------------------|
| Service cost | \$ 122,984 |
| Interest | 122,441 |
| Benefit payments, included refunds of employee contributions | (155,236) |
| Change in assumptions | <u>100,904</u> |
| Net change in total OPEB liability | 191,093 |
| Total OPEB liability - beginning of year | <u>3,866,486</u> |
| Total OPEB liability - end of year | <u><u>\$ 4,057,579</u></u> |
| | |
| Plan Fiduciary Net Position | |
| Net investment income | \$ - |
| Contributions | |
| Employer | 155,236 |
| Benefit payments, included refunds of employee contributions | (155,236) |
| Implicit rate subsidy fulfilled | - |
| Administrative expense | <u>-</u> |
| Net change in plan fiduciary net position | - |
| Plan fiduciary net position - beginning of year | <u>-</u> |
| Plan fiduciary net position - end of year | <u><u>\$ -</u></u> |
| | |
| District's net OPEB liability - end of year | <u><u>\$ 4,057,579</u></u> |
| | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 14.91% |
| | |
| Covered-employee payroll | \$ 2,073,759 |
| | |
| Net OPEB liability as a percentage of covered-employee payroll | 195.66% |

The schedules present information to illustrate changes in the District's changes in the net OPEB liability over a ten year period when the information is available.

Humboldt Bay Municipal Water District
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF HUMBOLDT BAY MUNICIPAL WATER DISTRICT'S
CONTRIBUTIONS - OPEB
For the Year Ended June 30, 2018

| | 2018 |
|--|--------------|
| Actuarially determined contribution | \$ 258,990 |
| Contributions in relation to the actuarially determined contribution | (155,236) |
| Contribution deficiency (excess) | \$ 103,754 |
| | |
| Covered payroll | \$ 2,073,759 |
| | |
| Contributions as a percentage of covered payroll | 7.49% |

The schedules present information to illustrate changes in the District's contributions over a ten year period when the information is available.

OTHER SUPPLEMENTARY INFORMATION

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

Board of Directors
Humboldt Bay Municipal Water District
Eureka, California

We have audited the basic financial statements, as listed in the table of contents, of Humboldt Bay Municipal Water District as of and for the year ended June 30, 2018, and have issued our report thereon dated April 30, 2019. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt Bay Municipal Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Humboldt Bay Municipal Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Humboldt Bay Municipal Water District's internal control over financial reporting.

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 Humboldt Bay Municipal Water District's basic financial statements are free of 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 Humboldt Bay Municipal Water District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humboldt Bay Municipal Water District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 30, 2019