

CARMEL AREA WASTEWATER DISTRICT
California

Annual Financial Report

**Year Ended
June 30, 2021**

CARMEL AREA WASTEWATER DISTRICT

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MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

8715 Seville Circle / Granite Bay, California 95746-5823

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carmel Area Wastewater District
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Carmel Area Wastewater District, Carmel, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors
Carmel Area Wastewater District
Carmel, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Carmel Area Wastewater District, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that (1) management's discussion and analysis, pension plan liability and contributions schedules, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 1, 2021 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are 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 internal control over financial reporting on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Marcello & Company

Certified Public Accountants
Granite Bay, California
October 1, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

***As Prepared by Management
(unaudited)***

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

The following discussion and analysis are supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with our financial statements, which follow this narrative.

Financial Highlights

Key financial highlights for 2020-21 are as follows:

- The District's net position increased by 6.5% or \$5.7M to \$94.6M. Total Operating revenues increased 5.3% or \$551K over the prior year and is 10.8% over budget. Sewer user fees, the District's primary source of operating revenue, increased 4.4% or \$384K over the prior year. The rate model projected a 3.16% increase in residential rates – overwhelmingly the District's largest user category. The increases are reflective of the District's continued efforts to fund its capital improvement and rehabilitation effort. Pebble Beach Community Services District (PBCSD) treatment fees increased by 3.6% or \$55K over prior year. Flow from Del Monte Forest decreased to 30.6% compared with 35.2% in 2019-20. Reimbursement from the Reclamation Project for O&M expenses increased 10.1% or \$65K.
- Total non-operating revenues increased 13.2% or \$484K over the prior year; and was 9.98% or \$410K over budget. Property tax revenue increased 7.2% or \$155K over the prior year. Investment income decreased 55.3% or \$396K over the prior year because interest rates were extraordinarily low. Reimbursement of capital costs from PBCSD decreased 38.2% or \$97K and from Reclamation it decreased 27.8% or \$6K again as projects were deferred.
- Total operating expenses (excluding depreciation) increased 13.8% or \$852K over the prior year reflecting continued focus on rehabilitation, focus on building COVID-19 protection into the workplace, as well as the effects of inflation and tariffs.
- Non-operating expenses decreased 22.9% or \$16K from the prior year due to persistent lower interest and fiscal expenses.
- Total Current Assets increased 12.5% or \$4.8M over the prior year. This was primarily due to an increase in cash and investments of \$5.6M.
- Total Current Liabilities increased 11.3% over the prior year primarily due to an increase in Accounts Payable-trade. Trade payables are up primarily due to timing issues. The Deposit account represents CCLEAN program revenue collected in advance from participants – the District became lead agency effective July 1, 2017.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (*this section*), the basic financial statements, and other supplementary information. The Financial Statements include Notes which explain in detail some of the information included in the basic financial statements. They are followed by a section of *Supplementary Information* that further explains and supports information in the financial statements.

Required Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components:

- The *Statements of Net Position* present information on all the District's assets and liabilities, with the difference between the two reported as net position.
- The *Statements of Revenue, Expenses, and Changes in Net Position* present information showing how the District's net position changed during the two most recent fiscal years.
- The *Statements of Cash Flows* present information showing how the District's cash position changed during the two most recent fiscal years. It shows the sources and uses of cash.

The District's financial statements utilize the full accrual basis of accounting whereby revenue is recognized when it is earned, and expenses are recognized as they are incurred. The District's accounting methods follow accounting principles generally accepted in the United States and as applied to governmental enterprise funds.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position provide an indication of the District's financial condition. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

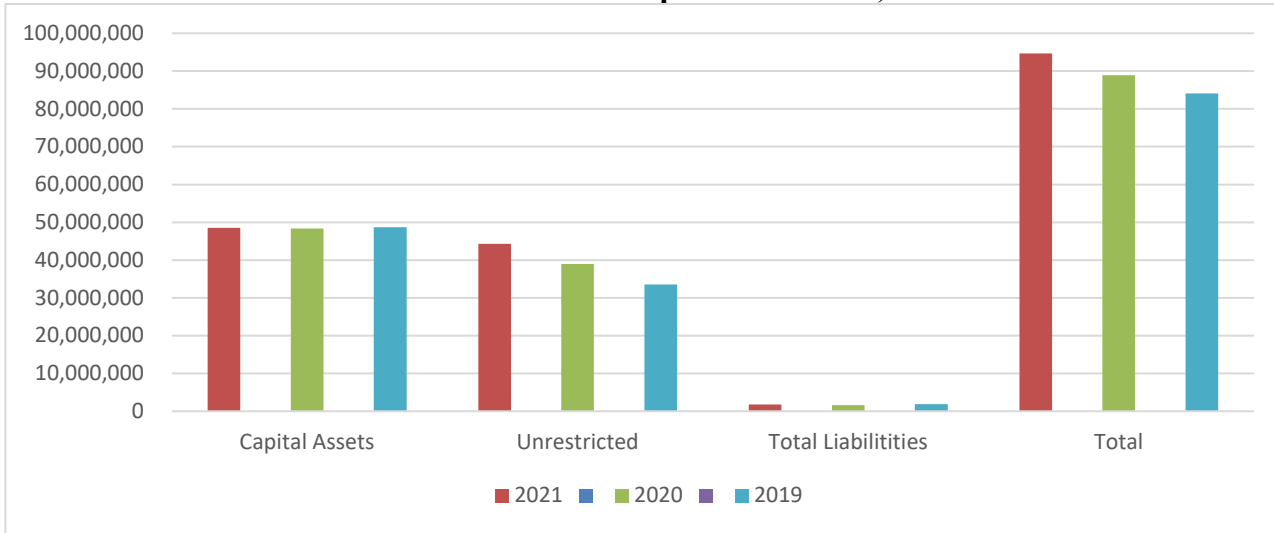
Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

A summary of net position is presented below:

	2021	2020	2019
Assets			
Current Assets	43,892,010	39,019,453	33,751,396
Capital Assets net of depreciation	49,328,863	49,271,695	49,756,407
Total Assets	<u>\$ 93,220,873</u>	<u>\$ 88,291,148</u>	<u>\$ 83,507,803</u>
Deferred Outflow of Resources	<u>1,436,277</u>	<u>628,060</u>	<u>615,708</u>
Total Assets & deferred outflow of resources	<u><u>\$ 94,657,150</u></u>	<u><u>\$ 88,919,208</u></u>	<u><u>\$ 84,123,511</u></u>
Liabilities			
Current Liabilities	1,010,799	907,793	1,067,713
Long-term vac/sick pay	210,858	184,108	156,912
Net pension liability	(226,295)	(414,355)	(617,997)
Long-term debt	585,000	760,000	930,000
Total Liabilities	<u>\$ 1,580,362</u>	<u>\$ 1,437,546</u>	<u>\$ 1,536,628</u>
Deferred Inflow of Resources	<u>214,481</u>	<u>213,513</u>	<u>364,168</u>
Total Liabilities & Deferred Inflow	<u><u>\$ 1,794,843</u></u>	<u><u>\$ 1,651,059</u></u>	<u><u>\$ 1,900,796</u></u>
Net Position			
Invested in capital assets, net of related debt	48,568,863	48,341,695	48,666,407
Unrestricted	44,293,444	38,926,454	33,556,308
Total net position	<u>\$ 92,862,307</u>	<u>\$ 87,268,149</u>	<u>\$ 82,222,715</u>
Total Liabilities & Net Position	<u><u>\$ 94,657,150</u></u>	<u><u>\$ 88,919,208</u></u>	<u><u>\$ 84,123,511</u></u>

Carmel Area Wastewater District
Management’s Discussion and Analysis
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CAWD Net Position Comparison June 30, 2019 to 2021



The District’s cash balances are segregated by purpose, as approved by the Board, as follows:

<u>Designation of Cash Balances</u>	<u>Amount</u>
Capital Reserves	\$ 17,923,995
Current Year O&M (2018-19)	15,138,628
Current Year Capital (2018-19)	6,353,351
LAIF Investment Fund	1,194,892
Defend or Managed Retreat Reserve	3,000,000
Compensated Accruals Fund	281,144
Total	\$ 43,892,010

After formally accepting the asset management plan prepared for the Treatment plant in April 2013, the District moved forward with implementation of the first phase. The original plan estimated the District will need to spend \$30M over the next fifteen years on plant rehabilitation – this is exclusive of engineering costs and construction management. The District has subsequently carried the long term plan out each year to maintain the fifteen-year time horizon. In 2021 the District released a bid for the second phase of our Treatment Plant rehabilitation. We anticipate that it will construction will cost \$8M and will be completed in 2023. This second phase represents the final large construction effort at the plant for the next twenty-five years. There will be smaller projects, but we are not anticipating anything as large as the initial two phases. The long-range total required for the treatment plant remains \$15M over the next twenty years after the second phase is complete.

The District maintains a long-term capital plan for both the treatment facility and the collection system. West Yost Associates was engaged to complete an Asset Management Study for the collection system like the work that was completed for the Treatment Plant in 2013. West Yost also completed a hydraulic model of the collection system to assist in planning for growth and maintenance of the existing system. The State General Waste Discharge Requirements for Sanitary Sewer Systems (Order No. 2006-0003) requires that we establish a proactive approach to ensure that a system-wide operation, maintenance, and management

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

plan is in place to reduce the number and frequency of sanitary sewer overflows. We are working to build long-term resiliency into our system.

A summary of Changes in Net Position is presented below:

	2021	2020	2019
Changes in Net Position:			
Operating revenues	\$ 11,436,530	\$ 10,956,640	\$ 10,405,550
Nonoperating revenues	4,160,041	3,675,149	3,676,030
<i>total revenues</i>	<u>15,596,571</u>	<u>14,631,789</u>	<u>14,081,580</u>
Operating expenses	7,103,148	7,136,802	6,284,700
Nonoperating expenses	48,158	55,226	71,636
Depreciation expense	2,851,107	2,394,327	2,246,827
<i>total expenses</i>	<u>10,002,413</u>	<u>9,586,355</u>	<u>8,603,163</u>
Income before Cap Contributions	<u>5,594,158</u>	<u>5,045,434</u>	<u>5,478,417</u>
Change in net position	5,594,158	5,045,434	5,478,417
Net position, beginning	<u>\$ 87,268,149</u>	<u>\$ 82,222,715</u>	<u>\$ 76,744,298</u>
Restatements			-
Net position, ending	<u>\$ 92,862,307</u>	<u>\$ 87,268,149</u>	<u>\$ 82,222,715</u>

The District's strategy for rate-setting has consistently been to cover all operating expenses with operating revenue and to utilize non-operating revenue (i.e., property taxes and interest revenues) to cover capital and other non-operating expenses. The District does not factor depreciation into its rate structure. Starting in 2012-13 we entered funding for Capital Replacement into our rate model, gradually building to \$1.6M per year in 2019-20. In 2020-21 we collected \$2.2M for capital. This funding combined with our property tax revenue means that the District has over \$3.5M coming for capital replacement and rehabilitation. We have a long-term capital plan for the treatment plant of roughly \$25M over the next 15 years and for the collection system of roughly \$40M over the next 20 years. And there is one more piece to our long-term plan: sea level rise. We have established a dedicated reserve to fund sea level rise mitigation that may range from simple water proofing efforts to moving facilities. We believe we have another 30 years at our current location. We believe our future depends very much on the planning we are doing now.

The District's net position increased by \$5.5M or 6.4% and there was an increase in Income before Capital Contributions of 10.9% or \$549K. Operating revenues increased 4.4% or \$480K and nonoperating revenues increased 13.2% or \$485K. Operating Expenses decreased 0.5% or \$33K and Nonoperating expenses decreased 12.8% or \$7K, both very small dollar changes. The District's assets exceeded liabilities by \$93.0M as of June 30, 2021. Net position, over time, may serve as a useful indicator of an entity's financial position.

The District's operations continue to be strong enough to support our plan to "pay-as-you-go" for our Treatment Plant Rehabilitation. We intend to utilize "pay-as-you-go" for the \$10M Electrical/Mechanical Rehab and Sludge Holding Tank project at the Treatment Plant. The District has committed to spending

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

roughly an additional \$3.5M per year to upgrade the collection system. We believe we are positioned to pay cash for the first five years of our Collection System long term plan at \$3.5M per year for replacement line projects. We may have to increase that to meet external pressures to upgrade the system more quickly. However, for the short term, we see paying cash as offering greater freedom. While it offers greater freedom to plan and build what we want and need, it does require considerable planning. We recognize that we may not be able to continue to pay cash indefinitely; but our Board of Directors has taken the position for now of not taking on debt.

Capital Assets Activity

This year, we continued to wait for the California Coastal Commission to complete our Coastal Development permit, while we worked through permit issues, we pivoted from large projects at the treatment facility to working in the Collection system and doing smaller projects at the plant.

The Collection system completed two significant pipeline projects this past year. The Hatton Canyon Pipeline Project was to replace the bell and spigot connections that are not strong enough during flood events with continuous HDPE. The District was successful in obtaining Federal Emergency Management Agency (FEMA) funding in the amount of \$983,028 for the project. The Rio Road Project was to line approximately 4,000 feet of 24 to 27 inch diameter asbestos cement pipe that runs along a major traffic point in the District. All of the pump stations in the District were updated to run Ignition SCADA software that matches the rest of the system at the Treatment Plant – they were on the old RSViews platform. The District also purchased a trailer mounted 500 kW generator to serve as a backup to the existing system in case the 750 kW generator were to fail. The Main Switchgear will be programmed to run off one generator with a standby (instead of the current split bus system). This will allow the removal of the existing 450 kW generator which has obsolete controls and needs to be removed to facilitate construction of new motor control equipment for the Influent Pump Station. Finally, the Pump Round Truck was replaced with a new Ford F350 with a crane. It is the primary vehicle used for towing standby generators to pump stations and it is the only vehicle with a crane on it that can be used to hoist pumps into and out of wet wells for service and replacement. The crane can also be used at the Treatment Plant when necessary.

2020-21 significant asset additions include:

- Hatton Canyon Pipeline \$ 1,364,500
- Rio Road CIPP Lining Project \$ 809,431
- Pump Station SCADA \$ 461,799
- 500 kW Standby Generator \$ 301,789
- Ford F350 with Crane \$ 81,814

Debt Service Activity

In 2004, the District entered into an agreement with the Highlands Inn, the Tickle Pink Inn and the Highlands Sanitary Association to manage and obtain the necessary financing for them to construct a pipeline and connect to the District's treatment and collection facilities. The District received \$3,000,000 in the form of a 20-year bond issue as part of a pooled financing arrangement with the California Statewide Communities Development Authority Water & Wastewater Revenue Bonds, Series 2004A. In 2020 the District made a principal payment on the bond of \$170,000 and \$44,362 in interest. Prior year 2019

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

principal payment was \$160,000 with \$53,025 in interest. The Highlands Project bond is the District's only outstanding bond obligation; the District had no debt service obligations prior to 2004.

All debt service interest and principal payments are being repaid by the parties that benefit directly from the obligation. The Highlands Project Bond obligation is fully reimbursed by the Highlands Inn, the Tickle Pink Inn, and the Highlands Sanitary Association.

Budget Highlights/Variances

An annual budget is adopted by the CAWD Board of Directors each spring for the subsequent fiscal year. Budget information is reported to the Board, and adjustments to the budget may only be made by resolution of the Board.

Like the rest of the nation, the District tried to stick to our main function of collecting and treating wastewater while keeping staff healthy and safe from COVID-19. While many businesses in town were closed, we saw little change in total flow because the residential flow took up the slack. 2020-21 major variances can be described as follows:

- Sewer service fees were 5.5% or \$470K over budget – the rate model provided for an additional \$1.6M to be allocated for future capital expenses.
- PBCSD treatment fees were 33.1% or \$397K over budget because of the increase in Treatment Plant expenses for continued rehabilitation of the plant. Flow from PBCSD decreased to 30.69% of total plant inflows compared to 35.25% of total inflows to the plant last year.
- Total Operating revenues were 10.8% over budget in total – attributable primarily to user fees and PBCSD treatment fees.
- Maintenance was 28.8% or \$559K under budget. Salaries & benefits were 15.6% under budget or \$88.9K, operating supplies were 10.2% under budget or \$5K, contract services were 43.6% under budget or \$275K, and repairs and maintenance 21.3% under budget or \$64K. The District continued its efforts at plant rehabilitation in-house, but projects were delayed because COVID-19. Our efforts focused on simply keeping the facility running with limited staff rather than improvements.
- Collections department was 0.8% or \$14K over budget. In order to meet the requirements of River Watch Settlement Agreement the Board approved hiring a term limited employee to assist. The department is committed to completing a complete closed circuit television review of the District along with an assessment of all manholes.
- The Treatment Plant was 9.6% under budget or \$529K. The treatment facility managed to keep on track with their planned budget but to also manage the Reclamation facility with little budgetary impact from COVID-19.
- General & Administrative Expenses were 11.4% over budget or \$153K. Salaries were 11.7 over budget or \$69K.
- Property tax revenue was 23.5% over budget or \$437K. The budget employed a conservative factor of 2.0% to estimate revenue, although 2.5% to 3.0% is common.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

- Investment revenue was 27.9% over budget or \$69K. While interest rates have remained exceptionally low, the District also did not spend funds on Phase II thereby maintaining higher balances in its deposit accounts.
- PBCSD capital reimbursements were 86.2% under budget or \$987K less than anticipated because as with CAWD expenditures capital projects were behind schedule, particularly the second phase of plant rehabilitation.

Other Significant Matters

- This was the first year of a two-year employee contract. The District agreed to award a 4.1% COLA for 2020-21. For fiscal year 2021-22 the agreement was per the posted CPI for San Francisco-Oakland-Hayward, which turned out to be 1.1%. Negotiations for the next two-year contract began in the fall of 2021.
- The Carmel River Free Project (CRFree) is progressing due to a Coastal Conservancy grant that allowed us to continue with engineering, environmental and permitting work. We are negotiating with the Monterey County for a Memorandum of Understanding on conditions for funding and reporting on our part of the CRFree project. We anticipate construction to begin in 2023.
- The District paid down its Unfunded Accrued Liability with CalPERS as follows: Classic Plan \$725,000 and PEPRA \$56,674.
- The District was served with a violation letter from California River Watch in January 2020. We negotiated an agreement by April 2020 that included a series of requirements, including a complete CCTV of all District lines and assessment of manholes within the next 3 years. In addition, the District was assessed \$23K by River Watch to settle out of court. We are currently trying to meet all River Watch requirements and have hired staff to enable us to meet the goals. Finally, in August 2020 we returned to River Watch and asked for an extension because COVID-19 made it impossible for us to fully staff.

Economic Factors and Next Year's Budget and Rates

The District continued to be affected by COVID-19. The Monterey County remained under mask guidelines through June 15, 2021. The District held two COVID-19 vaccine clinics and in August 2021 the Board amended the District's policy to mandate vaccination or a valid religious or disability exemption. We continued to encourage staff to stay home if they had any question about their health status. Wastewater is considered an essential service which meant that the District continued to operate throughout the pandemic. COVID continues to have an impact on the District because of the Delta and Omicron variants. We continue to require masks and social distancing. We have encouraged staff to get their booster shots. And we encourage vendors or contractors who work for the District to also, at a minimum, follow CalOSHA requirements as regards COVID.

COVID has also had an impact on District revenues which we may not be able to make up at a later date. Because so many businesses were closed, and people were out of work the District reduced user fees for fiscal year 2019-20 and for 2020-21. Rather than issue a rebate, which is extraordinarily difficult to target,

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2021

we utilized the rate model to keep rates low across the board. In effect, all customer classes benefited from reduced rates during COVID. This not a strategy that builds reserves, but it does meet the communities needs for the short term.

Sea Level Rise has become an overarching concern for the District, namely because the California Coastal Commission has decreed that CAWD should move the treatment plant out of the Carmel Lagoon within a 30 year timeline. CAWD commissioned a Sea Level Rise Study with ESA Associates, and their conclusions were that sea level rise projections do not identify new hazards to the treatment plant of greater concern than the 100-year flood risk that CAWD has previously planned for. Nonetheless, increased storm intensities, as well as higher sea levels, may increase the base flood elevations. According to the ESA study increased storm intensity as well as sea level rise will not detrimentally affect the CAWD facility before the year 2062 under the "Extreme Risk Aversion" scenario. This allows for over 40-years of continued operation in the existing location. While this seems like it should be plenty of time, we are not standing still and have begun the process of providing a formal flood mitigation policy and searching for alternative sites for when we relocate the facility.

In February 2020 year we were also approached by California River Watch with a list of demands. We were able to reach a successful settlement agreement with a minimal dollar amount and goals that we should be able to meet within the first five years. We did go back to River Watch in August 2020 and asked for an extension due to COVID-19 which was granted. The River Watch claim primarily resulted because of the repetitive losses in Hatton Canyon. We received a Federal Emergency Management Agency grant to replace the pipeline and anticipate the problem will be solved. However, we are keenly aware that failure to meet the milestones in the Settlement Agreement would then favor a return of River Watch.

Considering the impacts of the pandemic, River Watch, climate change, and sea level rise we feel the District is in good financial shape. The challenges we face are significant, but the District has a long history of planning for the future to make sure the community is well served. Over 63% of the District's user fee revenue is derived from residential fees which provides for a solid base, subject to minimal economic volatility. Another 13.9% of District operating revenues are received from Pebble Beach Community Services District (PBCSD) for the treatment of its sewage. Property tax revenues comprise 55% of our nonoperating income and have proven to be stable and increase 1% annually. Going forward we are closely watching inflation and as the impact of vendor price increases has already adversely affected the budget and we anticipate it to continue.

Requests for Information

This financial report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to James Grover, Principal Accountant, P.O. Box 221428, Carmel, CA 93922 or grover@cawd.org.

BASIC FINANCIAL STATEMENTS

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2021 and 2020

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*for comparative
purposes only*

Assets	2021	2020
Current Assets		
Cash and investments	\$ 42,634,066	\$ 38,005,103
Accounts receivable - trade	146,198	148,528
Accounts receivable - affiliates	590,866	816,571
Prepaid expenses	520,880	49,251
Total current assets	43,892,010	39,019,453
Noncurrent Assets		
Capital assets not being depreciated	1,942,127	2,389,044
Capital assets, net of depreciation	47,386,736	46,882,651
Total noncurrent assets	49,328,863	49,271,695
Total assets	93,220,873	88,291,148
Deferred Outflows of Resources		
Deferred pension plan outflows	1,419,193	628,060
Total assets and deferred outflows of resources	\$ 94,640,066	\$ 88,919,208

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2021 and 2020

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*for comparative
purposes only*

Liabilities and Net Position	2021	2020
Current Liabilities		
Accounts payable - trade	\$ 692,302	\$ 413,424
Accrued bond interest	9,975	12,206
Deferred revenue	63,236	4,210
Deposit	-	246,584
Revenue bonds - current	175,000	170,000
Compensated absences - current	70,286	61,369
Total current liabilities	1,010,799	907,793
Noncurrent Liabilities		
Amounts due in more than one year:		
Revenue bonds	585,000	760,000
Compensated absences	210,858	184,108
Net pension liability (overfunded)	(1,271,226)	(414,355)
Total noncurrent liabilities	(475,368)	529,753
Total liabilities	535,431	1,437,546
Deferred Inflows of Resources		
Deferred pension plan inflows	948,524	213,513
Total liabilities and deferred inflows of resources	1,483,955	1,651,059
Net Position		
Net investment in capital assets	48,568,863	48,341,695
Unrestricted	44,587,248	38,926,454
Total net position	93,156,111	87,268,149
Total liabilities, deferred inflows, and net position	\$ 94,640,066	\$ 88,919,208

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Revenue, Expenses, and Change in Net Position
Years Ended June 30, 2021 and 2020

	2021	<i>for comparative purposes only</i> 2020
Operating Revenue		
Sewer service fees	\$ 8,941,954	\$ 8,557,816
Treatment fees, PBCSD	1,597,608	1,541,642
Reclamation Project operating reimbursements	707,308	642,238
Liquid Food Waste fees	4,924	9,884
Brine Disposal fees	86,488	104,714
Other operating revenue	98,248	100,346
Total operating revenue	<u>11,436,530</u>	<u>10,956,640</u>
Operating Expenses		
Maintenance	1,333,505	1,151,754
Collection	1,739,674	1,601,805
Treatment and disposal	4,791,901	5,054,282
Administration	1,153,567	1,117,264
Reclamation Project expenses	624,870	573,988
Waste to Energy costs	13,805	25,114
Brine Disposal costs	3,129	6,922
Total operating expenses	<u>9,660,451</u>	<u>9,531,129</u>
Operating income (loss)	<u>1,776,079</u>	<u>1,425,511</u>
Nonoperating Revenue (Expenses)		
Property tax revenue	2,296,166	2,140,553
Investment earnings (loss)	319,244	715,611
Highlands Sewer Project assessment	219,062	218,013
PBSCD capital cost reimbursements	157,306	254,606
Reclamation Project capital cost reimbursements	16,418	22,744
Intergovernmental	1,094,012	218,090
Other nonoperating revenue	57,833	105,532
Interest and fiscal expenses	(45,396)	(54,006)
Other nonoperating expenses	(2,762)	(1,220)
Total nonoperating revenue (expenses)	<u>4,111,883</u>	<u>3,619,923</u>
Change in Net Position	5,887,962	5,045,434
Net Position - beginning	87,268,149	82,222,715
Net Position - end of year	<u>\$ 93,156,111</u>	<u>\$ 87,268,149</u>

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

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Cash Flows Provided By (Used For):	2021	2020
Operating Activities		
Cash received from customers	\$ 11,477,007	\$ 11,436,254
Cash payments for operating supplies	(2,915,386)	(2,729,730)
Cash payments for personnel costs	(4,964,035)	(4,647,919)
Net cash provided (used)	3,597,586	4,058,605
Noncapital Financing Activities		
Property tax revenue	2,296,166	2,140,553
Highlands Sewer Project revenue	219,062	218,013
Net cash provided (used)	2,515,228	2,358,566
Capital and Related Financing Activities		
Purchase of property and equipment	(2,908,275)	(1,909,615)
Proceeds from government grant award	1,094,012	-
Reimbursements for capital projects	173,724	277,350
Principal paid on revenue bonds	(170,000)	(160,000)
Interest and fiscal expenses	(47,627)	(56,106)
Other nonoperating revenue	57,833	323,622
Other nonoperating expenses	(2,762)	(1,220)
Net cash provided (used)	(1,803,095)	(1,525,969)
Investing Activities		
Investment earnings (loss)	319,244	715,611
Net cash provided (used)	319,244	715,611
Increase (decrease) in cash	4,628,963	5,606,813
Cash and cash equivalents - beginning	38,005,103	32,398,290
Cash and cash equivalents - end of year	\$ 42,634,066	\$ 38,005,103

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

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*for comparative
purposes only*

	2021	2020
Operating Activities Analysis		
Operating Income (Loss)	\$ 1,776,079	\$ 1,425,511
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Add depreciation, a noncash expense	2,851,107	2,394,327
Changes in current assets and liabilities:		
(increase) decrease in trade receivables	2,330	(4,515)
(increase) decrease in affiliate receivables	225,705	392,522
(increase) decrease in prepaid expenses	(471,629)	(49,251)
increase (decrease) in trade payables	278,878	(268,492)
increase (decrease) in deferred revenue	59,026	(154,977)
increase (decrease) in deposits	(246,584)	246,584
increase (decrease) in compensated absences	35,667	36,261
increase (decrease) in pension obligations	735,011	203,642
increase (decrease) in net deferrals	(1,648,004)	(163,007)
Net cash provided (used)	\$ 3,597,586	\$ 4,058,605

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the District as follows:

- Note 1 - Defining the Reporting Entity
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - CAWD/PBCSD Reclamation Project
- Note 4 - Cash and Investments
- Note 5 - Capital Assets
- Note 6 - Receivables
- Note 7 - Payables
- Note 8 - Deferred Compensation Plan
- Note 9 - Long-term Obligations
- Note 10 - Postemployment Benefits Other than Pensions
- Note 11 - Single Employer Defined Benefit Pension Plan
- Note 12 - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
- Note 13 - Risk Management
- Note 14 - Subsequent Events
- Note 15 - New Pronouncements

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Note 1 - Defining the Reporting Entity

Reporting Entity

The Carmel Area Wastewater District (the District), organized July 8, 1908, is governed under the provisions of the Sanitary District Act of 1923, Health and Safety Code, Section 6400 et seq., as amended. The function of the District is to provide, operate and maintain sewage collection, treatment, and disposal facilities for the properties included within its boundaries and for certain contracted adjacent properties, and supply reclaimed water to the Monterey Peninsula Water Management District.

The District's reporting entity includes all significant operation and revenue sources as determined under the criteria established by the Governmental Accounting Standards Board. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service. The District is exempt from federal income and state franchise taxes.

In March 1969, the District entered into an agreement with the Pebble Beach Community Services District (PBCSD) for treatment and disposal of sewage service delivered by PBCSD. It was anticipated that the contract would account for approximately one third of the capacity of the District's treatment plant. PBCSD began delivering sewage to the District in fiscal year 1970-71, and reimburses the District for one third of its operating treatment and disposal expenses plus a portion of general and administrative expenses at an agreed upon annual fee for this service. The agreement has been modified several times over the years, and currently operates under the 1994 amended agreement.

Under the same agreement, PBCSD additionally reimburses the District for one-third the cost of capital assets purchased or constructed for sewage treatment and disposal. Carmel Area Wastewater District maintains sole ownership of the wastewater treatment plant and related capital assets. PBCSD has only a contractual "right to use" one-third of the sewage treatment plant's capacity under the terms of the most recent modified 1994 agreement and has no rights to ownership of the District's capital assets. Accordingly, capital assets are recorded by the District at 100 percent of their historic cost or contributed value, and any expense reimbursements received from PBCSD or other affiliates are recorded as revenue to the District.

Intact sewage systems constructed by real estate developers are completed at no cost to the District. These systems, when formally accepted by District engineers and the Board of Directors, are recorded as revenue to the District.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Carmel Area Wastewater District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The financial transactions of the District are recorded in a Proprietary Fund type.

Proprietary Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the expenses, including depreciation, of providing goods or services to the general public are recovered through user charges.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District is such an enterprise fund.

The basic financial statements are prepared using the accrual basis of accounting. Accordingly all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses, and change in net position presents increases (revenue) and decreases (expenses) in total net position. Capital contributions of property and equipment are reported as a separate line item in the statement of revenue, expenses, and change in net position.

Other Agencies

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause that reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the District.

Accounts and Records

Records of the District are maintained at its office in Carmel, California. These records include cash receipts and disbursements journals, a general ledger, complete minutes of the Board of Directors meetings, Resolutions, Ordinances and files of supporting documents. Investment funds of the District are on deposit with the Monterey County Treasurer's investment pool.

Budgets and Budgetary Accounting

A budget of projected cash receipts and disbursements is prepared to meet the requirements of the Monterey County Auditor and for internal use by the Board of Directors. The budget is used to provide financial guidance to the District and to determine the amount of funds required from user fees and other sources. The primary difference between the budgetary basis method, and the accounting principles generally accepted in the United States of America (GAAP) method, is depreciation expense and the principal portion of debt service payments.

OTHER SIGNIFICANT ACCOUNTING POLICIES ARE:

Basis of Accounting

The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America as applied to governmental enterprises funds. These financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement provides for; recognition of contributions in the Statement of Revenue, Expenses, and Change in Net Position; inclusion of a Management Discussion and Analysis as required supplementary information; and other disclosure requirements.

Cash and Investments

The District maintains an account with the Monterey County Investment Pool, which essentially operates as a demand deposit account. Available cash balances are managed and controlled by the Monterey County Treasurer in pooled investment funds in order to provide safety, liquidity, and high investment returns for all funds. Earnings from these funds are credited to the District's account on a quarterly basis.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Assessments in excess of estimated current bond requirements of the District are deposited in the Monterey County account which earns interest based on the fund's prorata share of the cash in the investment fund. The District also maintains financial institution bank accounts for operations and payroll that are FDIC insured up to \$250,000 per individual financial institution.

Cash and Cash Equivalents

The District considers all highly liquid assets purchased with an original term to maturity of ninety days or less to be cash equivalents. Cash and cash equivalents are reported as "cash and investments" on the financial statement.

Restricted Assets

Certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District with participants for the design and construction of Wastewater Treatment Plan facilities or as restricted by bond covenants. When an expense is incurred for purposes for which there are both restricted and unrestricted cash assets available, restricted cash is used first, then unrestricted cash as it is needed.

Investment Policy

The District has not adopted an investment policy but generally follows the Monterey County Treasurer's investment policy guidelines which allow investments in any security authorized by Section 53635 of the Government Code of the State of California, and any other Government Code that permits investments in various securities, or participation in investment trading techniques or strategies.

Accounts Receivable

Account receivables considered uncollectible are accounted for using the allowance method. The allowance for doubtful accounts was \$-0- at June 30, 2021. All annual user fee customer invoices are added to the County assessed property tax invoices, mailed to property owners annually, collected by the County Assessor where the proceeds are deposited into the District's investment account with the County Treasurer.

Property, Plant & Equipment

Capital assets are accounted for at historical cost or estimated cost. In accordance with the District's capital assets policy, minor expenditures under \$10,000 for renewals and betterments are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized. In cases where assets are donated to the District, construction costs or estimated market values are recorded on the date received. Costs of assets sold, retired or otherwise disposed of have been eliminated from the accounts, and gains or losses on disposition are included in the applicable year's financial statement. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend lives, are also expensed in the current period.

The cost of property and equipment is depreciated from the date of acquisition, using the straight-line method of depreciation over their estimated useful lives, as follows:

<u>Asset Category</u>	<u>Useful Lives</u>
Treatment Plant - structures	30-40 years
Treatment Plant - equipment	12-15 years
Collections - office	40 years
Collections - pump stations	40 years
Disposal Facilities	20-50 years
Sewer and Appurtenances	25-75 years
Other Assets	25-75 years

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Vacation, Sick Leave, and Other Compensated Absences

The District has recorded an accrual for compensated absences in accordance with the District's policy of paying for unused vacation and sick leave of employees. The District's method of calculating the liability is in accordance with GASB Statement No. 16, except that the additional accruals for salary-related payments associated with the payment of compensation absences, for example the employer's share of pension contributions, social security and medicare taxes, have not been accrued as that amount is not considered significant or material to the financial statements taken as a whole. Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Unpaid vacation and sick leave at year-end is recorded as an expense and a liability when earned by employees. These unpaid amounts will be paid from available resources provided for in future year budgets and are classified as current or noncurrent, based upon expected payment dates.

Long-term Obligations

Long-term debt and obligations are reported as liabilities on the statement of net position either as current if payments are to be made within 12 months of the fiscal year-end, otherwise as noncurrent.

Pension Funding Obligations

Defined benefit pension plan (overfunded) or underfunded net liabilities are recognized and disclosed using the accrual basis of accounting.

In general, the District recognizes a net pension liability, which represents the District's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees Retirement System (CalPERS). The net pension liability is measured as of the District's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the District's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value. Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

Net Position

The business-type activities financial statements utilize a net position presentation. Net position represents the difference between assets plus deferred outflow of resources, as compared to liabilities plus deferred inflow of resources, and is displayed in the following three components:

- *Net Investment in Capital Assets* - this component groups all capital assets, reduced by accumulated depreciation, and the outstanding balances of debt that are attributable to the

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

acquisition, construction or improvement of the assets.

- *Restricted Net Position* - this component represents net position that is subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - this component represents net position of the District, not restricted for any construction project or other purpose.

When both restricted and unrestricted net position is available, restricted resources are used first, then unrestricted resources as they are needed.

Operating and Nonoperating Revenue

Operating revenue and expenses consist of revenue that results from the ongoing principal operations of the District. Operating revenue consists primarily of charges for services. Nonoperating revenue results from non-exchange transactions, ancillary activities or subsidies, and investment earnings.

Property Taxes

Property taxes in the State of California are administered for all local agencies at the County level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

- Property Valuations - are established by the Assessor of Monterey County for the secured and unsecured property tax rolls; the utility property tax roll is valued by the California State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.
- Tax Levies - are limited to 1% of full assessed value which results in a tax rate of \$1.00 per \$100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.
- Tax Levy Dates - are attached annually on January 1, preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.
- Tax Collections - are the responsibility of the Monterey County's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.
- Tax Levy Apportionments - due to the nature of the County-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities such as the District. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

by each County auditor-controller based primarily on the ratio that each agency represented of the total County-wide levy for the three fiscal years prior to fiscal year 1979.

- Property Tax Administration Fees - the State of California fiscal year 1990-91 Budget Act authorized Counties to collect an administrative fee for its collection and distribution of property taxes.
- Monterey County bills and collects property taxes and user fees for the District in addition to its own property taxes.

Use of Estimates

Preparing the District's financial statements in conformity with accounting principles generally accepted in the United States of America (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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - CAWD/PBCSD Reclamation Project

The CAWD/PBCSD Reclamation Project (the Project) is a "cooperative effort" involving the Carmel Area Wastewater District (CAWD), the Pebble Beach Community Service District (PBCSD), the Monterey Peninsula Water Management District (MPWMD), the Pebble Beach Company (PBCo), and the Independent Reclaimed Water Users Group (IRWUG). This cooperative effort did not create a new or separate legal entity. The Project is accounted for as a Proprietary (Enterprise) Fund in the books of the Monterey Peninsula Water Management District, the issuer of the 1992 *Variable Rate Demand Certificates of Participation*, which originally financed the Project. The activities of the Project are overseen by a six member management committee containing two representatives from the CAWD board, two from the PBCSD board, one from the PBCo board, and one from the Independent Reclaimed Water Users Group (IRWUG).

The Project provides treated or reclaimed wastewater to irrigate golf courses and open space areas within the community of Pebble Beach, which frees up potable water previously used for irrigation. The Project operates on the site of CAWD's existing wastewater treatment plant. The Project includes: a tertiary treatment plant, laboratory facilities, a wastewater distribution system, a storage tank used to distribute the treated wastewater to the receptor sites in Pebble Beach, and irrigation system improvements. Recent improvements include a Microfiltration/Reverse Osmosis facility at the CAWD plant, and a reservoir increase capacity project to hold additional reclaimed water at the PBCSD reservoir. The tertiary treatment plant produces water which meets Title 22 standards specified by the California Department of Health Services, which is a quality acceptable for irrigation.

Phase 1

The Project was initially financed in December 1992 by the aforementioned Certificates of Participation (COP) in the amount of \$33,900,000 which were executed and delivered at the direction of the MPWMD. Per the COP issuance agreement, the MPWMD agreed to provide the funds necessary to construct and operate the Project with contractual provisions to own the reclaimed water for the express purpose of resale of this water primarily to golf courses located within the Pebble Beach Community to reduce their reliance upon potable water. The PBCo guaranteed payment of construction costs of the Project, plus any operating deficiencies.

Any debt obligations incurred by the MPWMD to finance the Project constitutes limited obligations of

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
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MPWMD. These limited obligations are payable solely from the net operating revenue generated by the sale of reclaimed water produced by the Project and, if such reclaimed water revenue is insufficient, from payments on a Bond Letter of Credit, provided by Bank of America (the credit bank), through a reimbursement agreement between PBCo and the credit bank.

Phase 1 Construction of the Project began in January 1993, and was completed in October 1994. The Project assets are owned principally by CAWD and PBCSD, and consist primarily of the following:

Assets owned by CAWD include the following:

- new tertiary treatment plant
- secondary process improvements
- new laboratory facilities
- reclaimed water pump station
- related computer equipment
- small portion of the reclaimed water pipeline

Assets owned by PBCSD include the following:

- approximately seven miles of reclaimed water distribution system pipelines
- 2.5 million gallon storage tank
- portable water pump station
- reclaimed water booster pump station

Phase 2

In 2004, the Carmel Area Wastewater District, the Monterey Peninsula Water Management District, the Pebble Beach Community Services District, and the Pebble Beach Company approved agreements that enabled a significant expansion of the Project's operations known as Phase 2. The goal of the expansion was to enable the Pebble Beach golf courses to be fully dependent on recycled water, thus saving a significant amount of potable water. The expansion was partially funded from the sales of Pebble Beach Company's legal water entitlement agreements to Del Monte Forest residential property owners, currently available at \$250,000 per acre foot. Approximately \$29 million has been raised through these sales and investment earnings, with the proceeds deposited in a restricted construction escrow account.

The agreements commit the Pebble Beach Company and the Independent Reclaimed Water Users (the unincorporated association of the owners of Cypress Point Golf Club, Poppy Hills Golf Course, and the Monterey Peninsula Country Club) to use and pay for recycled water for irrigation, and make provisions for the beneficial use of any surplus recycled water.

The Project began construction on the Forest Lake Reservoir in 2004 with completion in 2006. Total cost of the reservoir component of the expanded project was approximately \$13 million. Upon completion of the reservoir, PBCSD began the application process with the California Division of Safety of Dams to increase the permitted capacity from 320 acre feet to 370 acre feet. Design began in 2006 for the micro-filtration/reverse osmosis (MF/RO) treatment component, along with implementation of a pilot project at Carmel Area Wastewater District's treatment facility. Construction commenced in October 2006 on the MF/RO plant. At June 30, 2009 the entire construction project was complete. Total cost of the MF/RO portion was approximately \$21.5 million. The combined improvements are expected to solve water quality issues experienced by the golf courses and should eliminate their use of potable water except in case of emergency. Year-round production is now possible with the Forest Lake Reservoir providing *peak demand* requirements.

Note 4 - Cash and Investments

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Cash and investments at fiscal year-end are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 42,634,066
Cash and investments are comprised of the following:	
Deposits with financial institutions:	
Checking accounts	\$ 510,936
State investment pool	1,194,892
Monterey County investment pool	40,928,238
	\$ 42,634,066

Participation in an external County Investment Pool

The District is a voluntary participant in the Monterey County Investment Pool. Funds in the Pool essentially operate as demand deposit accounts. Available cash balances are controlled and invested by the County Treasurer in pooled investment funds in order to provide safety, liquidity and investment returns for all funds. Interest earnings from these funds are credited to the District's account on a quarterly basis. As of June 30, 2021, the Pool had approximately \$2.2 billion in investments. The Monterey County Treasurer's Investment policy is in compliance with Section 53635 of the Government Code of the State of California, which permits investments in certain securities and participation in certain investment trading techniques or strategies. Annual reports of the investment pool may be obtained from the Monterey County Treasurer, Post Office Box 390, Salinas, California 93902.

Participation in an external State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the California State Treasurer. There is a five member Local Investment Advisory Board that is chaired by the State Treasurer. LAIF determines fair value of its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. LAIF is part of the Pooled Money Investment Account (PMIA) and under the control of the State Treasurer's Office, which is audited by the Bureau of State Audits on an annual basis. As of June 30, 2021, PMIA had approximately \$196 billion in investments. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Audited financial statements of PMIA may be obtained from the California State Treasurer's web site at www.treasurer.ca.gov.

Investments Authorized by the District's Investment Policy

The District does not have a specific investment policy but generally follows the guidelines of Monterey County's Investment Policy. All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the County's investment policy. The following County Investment Pool guidelines and directives are generally followed by District management:

- The legal, final maturity of any single security within the investment portfolio will not exceed five years at purchase.

CARMEL AREA WASTEWATER DISTRICT
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June 30, 2021

- The *weighted average life* of the portfolio will not exceed two years.
- The maximum maturity of investments in a money market pool shall not exceed 397 days, and the weighted maturity average maturity of the pool shall not exceed 90 days. A money market pool shall not exceed 10% of the portfolio's book value on the date investments are made; maximum investment in all money market pools shall not exceed 20% of the portfolio's book value on the date that investments are made.

Disclosures Relating to Interest Rate Risk

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

		<u>Maturity Date and Effective Yield</u>
Monterey County investment pool	\$ 40,928,238	due on demand, 0.69% yield
State investment pool (LAIF)	1,194,892	due on demand, 0.218% yield
Chase Bank checking	386,327	due on demand, 0.00% yield
Chase Bank payroll	124,609	due on demand, 0.00% yield

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Pool and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At year end, 95% of the District's cash was invested with the Monterey County Investment Pool.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At year end the District had \$275,953 in bank financial institutions that was not covered by the FDIC, but was covered by collateralized securities of the bank financial institutions where the deposits were maintained.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
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custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 5 - Capital Assets

Capital assets activity for the year consists of the following:

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<i><u>Non-depreciable Assets</u></i>				
Land and land rights	\$ 308,060	\$ -	\$ -	\$ 308,060
Construction-in-progress	2,080,984	-	(446,917)	1,634,067
totals	<u>2,389,044</u>	<u>-</u>	<u>(446,917)</u>	<u>1,942,127</u>
<i><u>Depreciable Assets</u></i>				
Treatment structures	70,358,452	-	-	70,358,452
Treatment equipment	8,315,575	417,374	-	8,732,949
Collection pump stations	1,238,844	-	-	1,238,844
Collection pump equipment	949,253	560,347	-	1,509,600
Sewers and appurtenances	11,119,420	2,173,930	-	13,293,350
Disposal facilities	1,643,891	-	-	1,643,891
Other assets	4,337,978	203,541	-	4,541,519
totals	<u>97,963,413</u>	<u>3,355,192</u>	<u>-</u>	<u>101,318,605</u>
<i><u>Accumulated Depreciation</u></i>	<u>(51,080,762)</u>	<u>(2,851,107)</u>	<u>-</u>	<u>(53,931,869)</u>
<i><u>Net Capital Assets</u></i>	<u>\$49,271,695</u>	<u>\$ 504,085</u>	<u>\$ (446,917)</u>	<u>\$49,328,863</u>

In the statement of revenue, expenses, and change in net position, total depreciation expense for the year was charged to the following departments:

Collection	\$ 371,968
Treatment and disposal	2,465,749
Administration	24,755
	<u>\$ 2,862,472</u>

Note 6 - Receivables

Receivables at year end consist of the following:

CARMEL AREA WASTEWATER DISTRICT
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User fees - customers	\$	106,871
Trade receivables		<u>39,327</u>
Total accounts receivable	\$	<u>146,198</u>
Reclamation Project	\$	60,481
Pebble Beach CSD		<u>530,385</u>
Total receivables from affiliates	\$	<u>590,866</u>

Note 7 - Payables

Payables at year end consist of the following:

Construction, engineering and consultants	\$	445,920
Supplies, repairs and maintenance		159,154
Utilities		37,946
Other vendors and expenses		<u>49,282</u>
	\$	<u>692,302</u>

Note 8 - Deferred Compensation Plan

The District maintains a deferred compensation plan for its eligible employees wherein amounts earned by the employees are paid at a future date. All full-time, regular, salaried employees are permitted to participate in the plan beginning on the first day of the month following their hire date. An employee may elect to make contributions up to the limits established by the Internal Revenue Service for this type of plan, and becomes 100% vested from the first date of participation. Nationwide Retirement Solutions, Inc., and the Variable Annuity Life Insurance Company, both administer the plan, which is in conformity with Section 457 of the Internal Revenue Code.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
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Note 9 - Long-term Obligations

Long-term debt and obligation activity for the year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 930,000	\$ -	\$ (170,000)	\$ 760,000	\$ 175,000
Compensated absences	245,477	35,667	-	281,144	70,286
Single employer net pension liability (overfunded)	(963,283)	-	(1,044,931)	(2,008,214)	
CalPERS net pension liability (overfunded)	548,928	188,060	-	736,988	
	<u>\$ 761,122</u>	<u>\$ 223,727</u>	<u>\$ (1,214,931)</u>	<u>\$ (230,082)</u>	

Compensated Absences

The accrued compensated absences amounts will be paid from available resources and are classified as current or noncurrent, based upon expected payment dates.

Revenue Bonds

In 2004, the District issued \$3,000,000 in *California Statewide Communities Development Authority Water and Wastewater Revenue Series 2004-A Bonds* through a pooled financing program for the design, planning, and construction of sewer facilities for certain properties located within the Carmel Highlands area. The District has signed agreements with (1) the Highlands Inn, (2) the Highlands Sanitary Association (which is comprised of eleven individual owners as members) and (3) the Tickle Pink Inn, to be reimbursed through sewer user fees for all the annual costs associated with the bonds including, but not necessarily limited to, installment payments of principal and interest on the bonds, debt service or administrative fees, and costs or obligations for which the District is obligated to make under the terms of the bond agreement. The sewer user fees and reimbursable costs generated from the customers in the Carmel Highlands area are assessed and included on the Monterey County secured property tax rolls, and submitted by the District annually, as is the same payment program with all District wastewater customers. Principal on the bonds is payable annually beginning October 1, 2004. Interest is payable semi-annually on October 1 and April 1, beginning October 1, 2004.

The interest rates on the bonds range from 1.5% to 5.25%; the bonds mature on October 1, 2024. The bond agreement contains a covenant requiring the District to yield "system net revenues" during each fiscal year equal to at least 120% of the annual debt service in the fiscal year. The covenant has been met.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Future annual principal and interest requirements are as follows:

<u>Year Ending June 30,</u>	<u>Revenue Bonds, Series 2004-A</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 175,000	\$ 35,306	\$ 210,306
2023	185,000	25,856	210,856
2024	195,000	15,881	210,881
2025	205,000	5,381	210,381
totals	<u>\$ 760,000</u>	<u>\$ 82,424</u>	<u>\$ 842,424</u>

Note 10 - Postemployment Benefits Other than Pensions

Plan Description

In September 2002, the District established a postemployment health plan (PEHP) to meet its employees' postemployment health care needs and expenses. Under the PEHP plan, Nationwide Retirement Solutions Company (NRS) provides administrative services in exchange for a fee as agreed upon by the District and NRS. The plan does not establish a long-term liability of the District. All employees are permitted to participate in the plan beginning on the first day of the month following their hire date. The District contributes 1.25% of an employee's salary to the plan on a periodic basis, on behalf of each eligible employee who is a plan participant. Amounts contributed are segregated to either one or both of the following sub-accounts for: (1) reimbursements of qualifying medical care expenses not paid by insurance or (2) reimbursement of health care insurance premiums. Contributions may not vary among eligible employees to fund the qualifying medical care expense sub-account and will be made as an equal dollar amount for each employee. Contributions to fund health care insurance premium sub-accounts may be made as an equal dollar amount or as a percentage of salary, but such percent or dollar amount must apply to all eligible employees. For the year ended June 30, 2021 the District contributed \$38,205 to the plan.

Note 11 - Single Employer Defined Benefit Pension Plan

A. General Information about the Plan

Plan Description

The Plan was established on July 1, 1969 by the District and has been amended several times since that date. The benefit formula is 2.5% of the participant's highest calendar year pay times years of benefit service. The Plan was amended effective October 29, 2005 to provide that the Normal retirement age, be age 62 with 5 years participation. Previously it was age 65. Also benefit service was frozen as of October 29, 2005 plus an additional 3.333 years for participants employed on that date. Vesting service was amended to add 3 years for participants employed on the amendment date. Employees hired after October 29, 2005 cannot participate in this plan but are eligible to participate in the District's retirement plan with the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan.

The Plan documents contain a more detailed description of the Plan provisions and should be referred to

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

for a more complete understanding of the terms of the Plan. The District is the Plan Administrator. Additional information concerning this Single Employer Defined Benefit Pension Plan can be obtained from the District's principal accountant.

Contributions

The District's funding policy is to provide for employer contributions on a monthly basis. Employer contributions to the plan for the year ended June 30, 2021 were \$-0- since the plan is overfunded. Contributions are actuarially determined under the aggregate actuarial cost method and are designed to accumulate sufficient assets to pay benefits when due. Although service credit to the plan has stopped, employees will only be able to draw their pension account upon separation from District employment.

Plan Membership

As of June 30, 2021, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	4
Vested terminated members entitled to, but not yet receiving benefits	3
Active members	<u>6</u>
total	13

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

As of June 30, 2021, the District reported a Net Pension Liability as follows:

Total pension liability	\$ 4,697,368
Fiduciary net position (plan assets)	6,705,582
Net pension liability (overfunded)	(2,008,214)

At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to this pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 42,844
Net difference between projected and actual earnings on pension plan investments	-	783,866
Differences between expected and actual experience	94,696	21,482
Totals	<u>\$ 94,696</u>	<u>\$ 848,192</u>

Amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense in the years ending June 30, 2022 and thereafter as follows:

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
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Year Ended June 30,	
2022	\$ (201,419)
2023	(177,865)
2024	(175,674)
2025	(198,538)
2026	-
thereafter	-
	\$ (753,496)

C. Actuarial Assumptions

The Total pension liability was determined as part of an actuarial valuation using the following actuarial methods and assumptions in accordance with GASB No. 68:

Valuation date	June 30, 2021
Measurement date	June 30, 2021
Actuarial cost method	Entry Age Normal
Amortization method	5 years
Remaining amortization method	3-5 years
Long-term inflation rate	2.00%
Salary increases	3.50%
Investment Rate of Return, net	6.00%
Retirement age, with 5 years participation	62
Mortality	RP-2014 tables

D. Discount Rate

The discount rate used to measure the total pension liability was 6.0% which is the long-term expected rate of return on pension plan investments net of pension plan administrative expense, including inflation.

E. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 6.0%, as well as what 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		
	5.00% (1% Decrease)	6.00% (Current Rate)	7.00% (1% Increase)
Net Pension Liability (overfunded)	\$ (2,442,439)	\$ (2,008,214)	\$ (1,711,265)

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Note 12 - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

A. General Information about the Plan

Plan Description

Starting October 29, 2005, the District provides pension benefits to eligible employees through a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50-55 with statutorily reduced benefits. Death benefits are the pre-retirement Optional Settlement 2W Death Benefit, and the post-retirement death benefit lump sum. The cost of living adjustments for each plan are applied as specified by the Public Employees Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

	CalPERS Miscellaneous Plan	
	Prior to January 1, 2013 (Classic)	On or after January 1, 2013 (PEPRA)
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years svc	5 year svc
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates (1)	7.000%	6.750%
Required employer contribution rates (1)	8.794%	6.732%

(1) Subject to annual changes after January 1, 2013

Contributions

The District makes partial contributions required of District employees on their behalf and for their account depending upon date of hire. Employee members are required to make contributions of their annual covered salary in an amount depending upon date of hire. The contribution requirements of plan are established and may be amended by CalPERS. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 each year, 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

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2021, employer pension plan contributions were \$232,382. The District provided an additional payment of \$725,000 to reduce the unfunded pension liability.

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

As of June 30, 2021, the District reported a net pension liability for its Proportionate Share of the Net Pension Liability of the CalPERS Public Agency Cost-Sharing Plan as follows:

Total pension liability	\$ 7,513,306
Fiduciary net position (plan assets)	6,776,318
Net pension liability	736,988

The District's net pension liability for its Plan with CalPERS is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020 (measurement date), 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, 2019 rolled forward to June 30, 2020 using standard update procedures.

The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2021, the District recognized \$439,343 as pension expense. The District reported deferred outflows of resources and deferred inflows of resources related to this pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,979	\$ -
Changes of assumptions	-	(5,256)
Net difference between projected and actual earnings on pension plan investments	21,893	-
Change in employer's proportion	206,093	-
Differences between employer's contributions and the proportionate share of contributions	-	(95,076)
Pension contributions subsequent to the measurement date	1,058,532	-
Totals	<u>\$ 1,324,497</u>	<u>\$ (100,332)</u>

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Recognition of Deferred Outflows and Inflows of Resources in Future Pension Expense, as follows:

<u>Year Ending June 30:</u>	
2022	\$ 79,482
2023	46,585
2024	29,066
2025	10,500
2026	-
thereafter	-
	<u>\$ 165,633</u>

C. Actuarial Assumptions

The total pension liability for this plan's actuarial valuation was determined using the following actuarial assumptions:

Actuarial Valuation Date	June 30, 2019
Measurement Period	July 1, 2019 to June 30, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.0% net of investment expenses

D. Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.0 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.0 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.0 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each asset class. 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.

CalPERS adheres to an Asset Allocation Strategy which establishes asset class allocation policy targets and ranges, and manages those asset class allocations within their policy ranges. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The asset allocation has an expected long-term blended rate of return of 7.0 percent.

Asset Class	Allocation
Global Equity	50.00%
Fixed Income	28.00%
Private Equity	8.00%
Real Assets	13.00%
Liquid Assets	1.00%
	100.00%

E. 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 calculated using the discount rate of 7.15%, 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		
	6.15%	7.15%	8.15%
	(1% Decrease)	(Current Rate)	(1% Increase)
Net Pension Liability	\$ 1,736,825	\$ 736,988	\$ (89,147)

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

Note 13 - 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. This policy covers solely the District's property and equipment located on State Route 1 in Carmel, California, and not property and equipment owned by other government agencies that may be physically located on CAWD property.

The District is a member of the California Sanitation Risk Management Authority (CSRMA), an established public entity risk pool that operates as a common risk management and insurance program for 60 government members. The District pays an annual premium to the risk pool for its workers' compensation, excess workers compensation, property, and general coverage. Risk of loss is retained for general liability claims. The agreement with the risk pool provides that it will be self-sustaining through member premiums and additional policies purchased from commercial insurance companies for general liability claims, and for excess workers' compensation claims. The District's share of CSRMA year-end assets, liabilities, and retained earnings has not been calculated by the CSRMA. Financial statements may be obtained from CSRMA, 100 Pine Street, 11th Floor, San Francisco, California 94111.

Health Life and Vision Insurance - the District participates in a group health insurance plan, which provides benefits for all qualified employees.

Dental Insurance - the District has elected to self-insure for dental insurance under a reimbursement plan. The amount of the contingent liability, if any, at fiscal year end is not material, however, the District is not aware of any significant claims currently pending.

Note 14 - Subsequent Events

The management of the District has reviewed the results of operations for the period from its year end June 30, 2021 through October 15, 2021, the date the draft financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

Note 15 - New Pronouncements

The Governmental Accounting Standards Board (GASB) has released the following new pronouncements, which can be read in their entirety at <http://www.gasb.org>

In January 2020, GASB issued Statement No. 92 – Omnibus 2020. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to leases, fiduciary activities, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2021

In March 2020, GASB issued Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements. A public-private and public-public partnership arrangement (PPP) is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This statement addresses issues related to PPPs. PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of a service concession arrangement (SCA) or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement).

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs), which are defined in this Statement as an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Early application is encouraged. PPPs should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or if applicable to earlier periods, the beginning of the earliest period restated).

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

In June 2020, GASB issued Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. Paragraphs 4 and 5 are applicable to fiscal year 2019-2020. This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (unaudited)
As of June 30, 2021

Schedule of Proportionate Share of the Net Pension Liability

The proportion (*percentage*) of the collective net pension liability represents the District's share of the cost-sharing plan assets offset against the actuarial determined collective pension liability.

The proportionate share (*dollar amount*) of the collective net pension liability represents the District's share of the cost-sharing plan assets offset against the actuarial determined collective pension liability.

The employer's covered-employee payroll represents the payroll of employees that are provided with pensions through the plan.

Schedule of Contributions

The employer's contributions to the plan is actuarially determined or based on statutory or contractual requirements which comprise the following: (1) the agent employer's actuarially determined contribution to the pension plan (its statutorily/contractually required contribution), (2) the employer's actual contributions, the difference between the actual and actuarially determined contributions (its statutorily/contractually required contributions), and (3) a ratio of the actual contributions divided by covered-employee payroll.

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information (unaudited)
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 7 Fiscal Years *

Schedule of the District's Proportionate Share of the Plan's Net Pension Liability	Measurement Date - Fiscal Year Ending June 30						
	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.0068%	0.0054%	0.0041%	0.0045%	0.0033%	0.0005%	0.0101%
District's proportionate share of the net pension liability	\$ 736,988	\$ 548,928	\$ 395,657	\$ 448,040	\$ 285,127	\$ (33,002)	\$ 629,116
District's covered-employee payroll **	\$ 2,758,226	\$ 2,531,591	\$ 2,252,020	\$ 2,177,857	\$ 2,030,331	\$ 2,053,405	\$ 1,868,031
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	26.72%	21.68%	17.57%	20.57%	14.04%	-1.61%	33.68%
Plan fiduciary net position as a percentage of the total pension liability	75.10%	75.27%	75.26%	73.31%	74.06%	78.40%	79.82%

Schedule of the District's Contributions	Fiscal Year Ending June 30						
	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$ 276,858	\$ 227,991	\$ 199,800	\$ 165,214	\$ 152,534	\$ 134,094	\$ 157,952
Contributions in relation to the contractually required employer contribution	1,058,532	227,991	199,800	165,214	152,534	134,094	718,672
Contribution deficiency (excess)	<u>\$ (781,674)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (560,720)</u>
District's covered-employee payroll ***	\$ 2,949,036	\$ 2,758,226	\$ 2,531,591	\$ 2,252,020	\$ 2,177,857	\$ 2,030,331	\$ 2,053,405
Contributions as a percentage of covered-employee payroll	35.89%	8.27%	7.89%	7.34%	7.00%	6.60%	35.00%

* Fiscal year 2015 was the first year of implementation, therefore only six years are shown

** for the measurement date fiscal year

*** for the fiscal year ending on the date shown

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information (unaudited)
Single Employer Defined Benefit Pension Plan
As of June 30, 2021

Schedule of Changes in the Net Pension Liability

The beginning and ending balances of the total pension liability, the plan assets available for pension benefits, and the net pension liability, as well as the change in those amounts during the year are presented by cause.

Total pension liability, plan net position, net pension liability, a ratio of plan net position divided by the total pension liability, payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net pension liability divided by covered-employee payroll.

Schedule of Contributions

The employer's contributions to the plan is actuarially determined or based on statutory or contractual requirements which comprise the following: (1) the agent employer's actuarially determined contribution to the pension plan (its statutorily/contractually required contribution), (2) the employer's actual contributions, the difference between the actual and actuarially determined contributions (its statutorily/contractually required contributions), and (3) a ratio of the actual contributions divided by covered-employee payroll.

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information (unaudited)
Single Employer Defined Benefit Pension Plan
Last 7 Fiscal Years *

Schedule of Changes in the District's Net Pension Liability

	Fiscal Year Ending June 30						
	2021	2020	2019	2018	2017	2016	2015
<u>Total Pension Liability:</u>							
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on total pension liability	269,016	259,881	253,702	267,900	271,856	267,034	234,721
Differences between expected and actual	49,189	84,663	6,974	(80,294)	16,907	29,560	103,803
Changes of assumptions	(16,640)	(17,336)	(5,452)	(62,738)	-	-	(907,311)
Benefit payments, includes refunds	(173,066)	(176,786)	(128,424)	(596,447)	(112,946)	(319,499)	(73,846)
Net change in total pension liability	128,499	150,422	126,800	(471,579)	175,817	(22,905)	(642,633)
Total pension liability - beginning	4,568,869	4,418,447	4,291,647	4,763,226	4,587,409	4,610,314	5,252,947
Total pension liability - ending	<u>\$ 4,697,368</u>	<u>\$ 4,568,869</u>	<u>\$ 4,418,447</u>	<u>\$ 4,291,647</u>	<u>\$ 4,763,226</u>	<u>\$ 4,587,409</u>	<u>\$ 4,610,314</u>
 <u>Plan Fiduciary Net Position:</u>							
Contributions - employer	\$ -	\$ -	\$ 34,600	\$ 78,936	\$ 88,680	\$ 130,672	\$ 216,420
Contributions - employee	-	-	-	-	-	-	-
Net investment income	1,348,545	278,846	264,302	364,427	374,628	(92,216)	227,644
Benefit payments, includes refunds	(173,066)	(176,786)	(128,424)	(596,447)	(112,946)	(319,499)	-
Administrative expense	(2,049)	(2,009)	(1,842)	(1,844)	(1,763)	(16,821)	(73,846)
Net change in plan fiduciary net position	1,173,430	100,051	168,636	(154,928)	348,599	(297,864)	370,218
Plan fiduciary net position - beginning	5,532,152	5,432,101	5,263,465	5,418,393	5,069,794	5,367,658	4,987,466
Plan fiduciary net position - ending	<u>\$ 6,705,582</u>	<u>\$ 5,532,152</u>	<u>\$ 5,432,101</u>	<u>\$ 5,263,465</u>	<u>\$ 5,418,393</u>	<u>\$ 5,069,794</u>	<u>\$ 5,357,684</u>
 <u>Net Pension Liability / (Overfunded)</u>	<u>\$ (2,008,214)</u>	<u>\$ (963,283)</u>	<u>\$ (1,013,654)</u>	<u>\$ (971,818)</u>	<u>\$ (655,167)</u>	<u>\$ (482,385)</u>	<u>\$ (747,370)</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability:

Covered employee payroll	\$ 784,366	\$ 747,631	\$ 711,527	\$ 680,149	\$ 683,592	\$ 759,350	\$ 785,681
NPL (overfunded) as percentage of covered employee payroll	-256.0%	-128.8%	-142.5%	-142.9%	-95.8%	-63.5%	-95.1%

Schedule of District's Contributions:

Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 103,838	\$ 78,940	\$ 88,667	\$ 130,567
Actual contributions	-	-	(34,600)	(78,936)	(88,680)	(130,672)	(216,420)
Contribution deficiency / (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (34,600)</u>	<u>\$ 24,902</u>	<u>\$ (9,740)</u>	<u>\$ (42,005)</u>	<u>\$ (85,853)</u>
 Covered employee payroll	\$ 784,366	\$ 747,631	\$ 711,527	\$ 680,149	\$ 683,592	\$ 759,350	\$ 779,176
Contributions as a percentage of covered payroll	0.00%	0.00%	-4.86%	-11.61%	-12.97%	-17.21%	-27.78%

* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

OTHER SUPPLEMENTARY INFORMATION

CARMEL AREA WASTEWATER DISTRICT
Budgetary Comparison Information
Revenue and Expenses
Year Ended June 30, 2021

	Final Budget <i>(unaudited)</i>	Actual	Variance Favorable (Unfavorable)
<u>Operating Revenue</u>			
Sewer service fees	\$ 8,471,311	\$ 8,941,954	\$ 470,643
Treatment fees, PBCSD	1,200,000	1,597,608	397,608
Reclamation Project O&M reimbursements	541,645	707,308	165,663
Liquid Food Waste fees	-	4,924	4,924
Brine Disposal fees	-	86,488	86,488
Other operating revenue	101,500	98,248	(3,252)
Total operating revenue	<u>10,314,456</u>	<u>11,436,530</u>	<u>1,122,074</u>
<u>Operating Expenses</u>			
Maintenance	1,936,996	1,333,505	603,491
Collection	1,774,868	1,739,674	35,194
Treatment and disposal	5,482,836	4,791,901	690,935
General and administrative	1,345,674	1,153,567	192,107
Reclamation Project O&M expenses	541,645	624,870	(83,225)
Waste to Energy costs	23,583	13,805	9,778
Brine Disposal costs	7,884	3,129	4,755
Other operating expenses	-	-	-
Total operating expenses	<u>11,113,486</u>	<u>9,660,451</u>	<u>1,453,035</u>
Operating income (loss)	(799,030)	1,776,079	2,575,109
<u>Nonoperating Revenue and (Expenses)</u>			
Property tax revenue	1,858,219	2,296,166	437,947
Investment earnings	249,500	319,244	69,744
Highlands Sewer Project revenue	223,689	219,062	(4,627)
PBCSD capital reimbursements	1,144,834	157,306	(987,528)
Reclamation Project capital reimbursements	278,650	16,418	(262,232)
Intergovernmental	-	1,094,012	1,094,012
Other nonoperating revenue	-	57,833	57,833
Debt Service - Interest and fiscal expenses	(44,363)	(45,396)	(1,033)
Other nonoperating (expenses)	(9,325)	(2,762)	6,563
Total non-operating revenue and (expenses)	<u>3,701,204</u>	<u>4,111,883</u>	<u>410,679</u>
<u>Net Income</u>	<u>\$ 2,902,174</u>	<u>\$ 5,887,962</u>	<u>\$ 2,985,788</u>

APPENDIX A

CARMEL AREA WASTEWATER DISTRICT
California

Single Audit Report

**Year Ended
June 30, 2021**

CARMEL AREA WASTEWATER DISTRICT, CALIFORNIA

Single Audit Report

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MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

8715 Seville Circle / Granite Bay, California 95746

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Carmel Area Wastewater District
Carmel, California

We have audited, 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, the financial statements of the business-type activities of the Carmel Area Wastewater District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Carmel Area Wastewater District basic financial statements, and have issued our report thereon dated October 1, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcello & Company

Certified Public Accountants
Granite Bay, California
October 1, 2021

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

8715 Seville Circle / Granite Bay, California 95746

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance; and Report on the Schedule of Expenditures of Federal Awards

To the Board of Directors
Carmel Area Wastewater District
Carmel, California

Report on Compliance for Each Major Federal Program

We have audited the Carmel Area Wastewater District compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and the Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of

requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities of the Carmel Area Wastewater District as of and for the year ended June 30, 2021, and have issued our report thereon dated October 1, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Marcello & Company

Certified Public Accountants
Granite Bay, California
October 1, 2021

CARMEL AREA WASTEWATER DISTRICT, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY (DHS)		
Hazard Mitigation Grant Program (HMGP)		
Passed through the State of California Office of Emergency Services (OES)		
Project Name: Hatton Canyon Pipe Bursting		
FEMA-4344 DR-CA-Project #PJ0600 FIPS#053-92003	97.039	<u>\$ 774,031</u>

CARMEL AREA WASTEWATER DISTRICT, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the expenditures for all federal award programs received by the Carmel Area Wastewater District, California (District). The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or change in net position of the District.

Note 2 - Summary of Significant Accounting Policies

The federal award expenditures reported in the Schedule are prepared from records maintained by the District for federal funds and reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, when applicable, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3 - De Minimis Cost Rates

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 - Pass-through

Federal awards passed through the State of California are identified on the Schedule.

Note 5 - Subrecipients

There were no subrecipients of federal awards this year.

Note 6 - Catalog of Federal Domestic Assistance Numbers

The Catalog of Federal Domestic Assistance (CFDA) numbers included in the accompanying Schedule were determined based upon program name, review of grant contract information, and the Office of Management and Budget's CFDA.

CARMEL AREA WASTEWATER DISTRICT, CALIFORNIA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified Opinion

2. Internal controls examined during the audit of the financial statements:

- a. Material weaknesses identified? *None disclosed*
- b. Significant deficiencies identified? *None disclosed*

3. Noncompliance material to the financial statements identified during the audit? *None disclosed*

4. Internal control over major programs examined during the audit of the financial statements:

- a. Material weaknesses identified? *None disclosed*
- b. Significant deficiencies identified? *None disclosed*

5. Type of auditor's report issued on compliance for major programs: *Unmodified Opinion*

6. Any audit findings relating to major programs disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? *None disclosed*

7. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant Program (HMGP)

8. Dollar threshold used to distinguish between Type A and Type B programs? *\$750,000*

9. Auditee qualifies as a low-risk auditee? *No – first year Single Audit*

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year: *None disclosed*

Prior Year: *None disclosed*

SECTION III - MAJOR FEDERAL PROGRAMS FINDINGS AND QUESTIONED COSTS

Current Year: *None disclosed*

Prior Year: *None disclosed*

