

**THERMALITO WATER AND SEWER DISTRICT**

**OROVILLE, CALIFORNIA**

**ANNUAL FINANCIAL REPORT**

**With**

**Independent Auditor's Report Thereon**

**JUNE 30, 2020**

# THERMALITO WATER AND SEWER DISTRICT

Annual Financial Report  
June 30, 2020

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**THERMALITO WATER AND SEWER DISTRICT**

Annual Financial Report  
June 30, 2020

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**THERMALITO WATER AND SEWER DISTRICT**

Annual Financial Statements  
For the Year Ended June 30, 2020

**BOARD OF DIRECTORS**

**President:**

Trevor Hatley  
Division 2

**Vice-President:**

Susan Latulippe  
Division 3

**Directors:**

Brad Taggart  
Division 1

Bruce Wristen  
Division 4

Ernie Reynolds  
Division 5

**District Manager:**

Jayme Boucher

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Thermalito Water and Sewer District  
Oroville, California 95965

We have audited the accompanying financial statements of the Thermalito Water and Sewer District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents. The prior year comparative information has been derived from the District's June 30, 2019 financial statements and, in our report dated September 10, 2020, we expressed an unmodified opinion on the basic financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Board of Directors  
Thermalito Water and Sewer District  
Oroville, California 95965

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2020, and the respective change 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 the management's discussion and analysis on pages 5 through 10 and other required supplementary information on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying other supplementary information on pages 40 and 41 is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors  
Thermalito Water and Sewer District  
Oroville, California 95965

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2020, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit, in accordance with *Government Auditing Standards*, in considering the District’s internal control over financial reporting and compliance.

**Reports on Other Legal and Regulatory Requirements**

Independent Auditor’s Report on Compliance relating to the Sewerage Commission – Oroville Region

The management of the District is responsible for the District’s compliance with various resolutions and policies of the Sewerage Commission – Oroville Region (SC-OR). We tested certain transactions and reviewed records to determine the District’s compliance with SC-OR’s resolutions and policies.

Fechter & Company,  
Certified Public Accountants



Sacramento, California  
September 10, 2020



# THERMALITO WATER AND SEWER DISTRICT

## Management's Discussion and Analysis For the Year Ended June 30, 2020

This section of the annual financial report of the Thermalito Water and Sewer District (District) presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements following this section.

### BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-Wide Financial Statements** – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances.

The District's government-wide financial statements consist of:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The ***Statement of Net Position*** includes all of the District's assets and liabilities, with the difference between the two reported as Net Position. Net Position is displayed in three categories:

- Net investment in capital assets
- Restricted
- Unrestricted

This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The ***Statement of Revenues, Expenses, and Changes in Net Position*** presents information which shows how the District's equity changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses, and changes in net position measures the success of the District's operations during the year and determines whether the District has recovered its costs through monthly service fees and other charges.

The ***Statement of Cash Flows*** provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating Activities
- Non-Capital Financing Activities
- Capital and Related Financing Activities
- Investing Activities

# THERMALITO WATER AND SEWER DISTRICT

## Management's Discussion and Analysis For the Year Ended June 30, 2020

The *Notes to the Financial Statements* provides a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

**Fund Financial Statements** – The District maintains two proprietary funds that are classified as enterprise funds. The District uses the enterprise funds to account for its water and sewer services, both considered to be major funds of the District. The proprietary fund financial statements provide the same information as the government-wide financial statements, however, in greater detail.

### **Financial Highlights**

Fiscal year 2019/2020 was a stable year for the District. The construction of new homes is moving forward. The District sold thirty-two water connections and fifty-nine sewer connections for the year.

The District had two major projects for the Fiscal Year 2020. The Well 2 Rehabilitation Project - Well 2 was experiencing a considerable amount of dissolved air during pumping operations. Upon inspection of the well, it was found that the well column had extensive rust and had collapsed in some areas. The well column was removed and replaced. Total cost for the Well 2 Rehabilitation Project came to \$18,108.

The 2.5 Million Gallon Tank Replacement Project consisted of the existing 2.5 MG tank that was built back in the 60's and utilized a single inlet/outlet pipe. The new tank consists of a structural glass fused to steel bolted panels. This construction is durable and completely inhibits the formation of rust. Additionally, during this project, the inlet and outlet plumbing was configured to have separate penetrations to the tank. This aids in the circulation of water and chlorine contact time. The project took approximately 10 months to complete. Total cost for the 2.5 Million Gallon Tank Replacement Project came to \$1,483,588.

## THERMALITO WATER AND SEWER DISTRICT

### Management's Discussion and Analysis For the Year Ended June 30, 2020

#### Financial Analysis of the District – Government-Wide

**Statement of Net Position:** The District's net position increased from one year ago. Our analysis below focuses on the net position of the District's enterprise activities.

#### Thermalito Water and Sewer District Statement of Net Position

	2020	2019	2018
<u>Assets</u>			
Current assets	\$ 5,787,550	\$ 6,229,741	\$ 5,453,911
Restricted assets	1,031,716	1,048,955	886,450
Capital assets, net of accumulated depreciation	16,150,625	15,051,098	14,599,487
Total Assets	22,969,891	22,329,794	20,939,848
CalPERS pension contributions	317,268	347,528	571,612
Total Deferred Outflows of Resources	317,268	347,528	571,612
<u>Liabilities</u>			
Other current liabilities	226,381	471,759	275,427
Long-term liabilities	3,642,731	3,766,985	4,163,733
Total Liabilities	3,869,112	4,238,744	4,439,160
CalPERS actuarial amounts	77,652	96,009	74,154
Total Deferred Inflows of Resources	77,652	96,009	74,154
<u>Net Position</u>			
Invested in capital assets, net of related debt	13,864,997	12,507,629	11,783,359
Restricted	1,031,716	1,048,955	886,450
Unrestricted	4,443,682	4,785,985	4,328,337
Total Net Position	\$ 19,340,395	\$ 18,342,569	\$ 16,998,146

The total net position of the District's enterprise activities increased by \$997,826 from one year ago (2019 to 2020). The current assets of the District's governmental activities, including restricted cash, decreased by \$459,430 from one year ago, and the capital assets, net of accumulated depreciation, increased by \$1,099,527. Long-term liabilities decreased by \$124,254 from prior year. Unrestricted Net Position is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. The Unrestricted Net Position at June 30, 2019, of \$4,785,985 compared to Unrestricted Net Position at June 30, 2020, of \$4,443,682, decreased by \$342,303.

**THERMALITO WATER AND SEWER DISTRICT**

Management's Discussion and Analysis  
For the Year Ended June 30, 2020

**Statement of Revenues, Expenses, and Changes in Net Position:** Reflects changes in activities of the District.

	2020	2019	2018
<b>Revenues:</b>			
Charges for services	\$ 4,004,717	\$ 4,161,517	\$ 3,454,878
Other	23,254	16,884	13,475
Total Revenues	4,027,971	4,178,401	3,468,353
<b>Expenses:</b>			
Direct expenses	1,138,169	1,111,498	974,185
Administration	975,038	905,972	801,343
SCOR charges	475,083	396,590	393,953
Depreciation	658,029	610,139	615,449
Total Expenses	3,246,319	3,024,199	2,784,930
Operating income	781,652	1,154,202	683,423
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	132,925	74,981	55,206
Capacity charges	107,728	151,367	28,035
Solar income	-	-	16,606
Other non-operating income	-	60	-
Interest expense	(50,479)	(57,640)	(65,188)
Gain (loss) on disposal of assets	26,000	21,453	(731)
Total	216,174	190,221	33,928
Change in Net Position	\$ 997,826	\$ 1,344,423	\$ 717,351

Charges for services decreased by \$156,800, due to fewer water and sewer connections sold throughout the year.

The District's operating expenses increased by \$222,120, primarily due to repairs to the operating system.

**Financial Analysis of the District – Proprietary Funds**

The District's proprietary fund financial statements provide greater detail of the Water and Sewer Service funds that comprise the government-wide financial statements.

Unrestricted net position of the respective proprietary funds at June 30, 2020, are: Water Services \$2,588,098, and Sewer Services \$1,855,584. For the fiscal year ended June 30, 2020, the Water Services total net position decreased by \$508,104, and the Sewer Service total net position increased by \$165,801.

## THERMALITO WATER AND SEWER DISTRICT

### Management's Discussion and Analysis For the Year Ended June 30, 2020

#### Capital Assets

The District's investment in capital assets (net of accumulated depreciation) totals \$16,095,195, as of June 30, 2020. The following table provides a detailed breakdown of the capital assets:

Thermalito Water and Sewer District Net of Accumulated Depreciation			
	2020	2019	2018
<b>Water Services:</b>			
Land	\$ 126,171	\$ 126,171	\$ 126,171
Concow easement	12,968	12,968	12,968
Construction in progress	55,430	-	-
Source and supply	9,648,429	8,436,621	7,974,696
General plant and administration	197,691	216,380	242,905
Total Capital Assets, Water	10,040,689	8,792,140	8,356,740
<b>Sewer Services:</b>			
Construction in progress	5,868	5,868	5,868
Sewer collection facilities	5,944,456	6,147,927	6,126,179
Automotive equipment	159,612	105,163	110,700
Total Capital Assets, Sewer	6,109,936	6,258,958	6,242,747
Total Net Capital Assets	\$ 16,150,625	\$ 15,051,098	\$ 14,599,487

#### Capital Debt

As of June 30, 2020, the District had long-term debt of \$2,285,628, compared with \$2,543,469 at June 30, 2019. More detailed information about the District's long-term debt is presented in Note 5 of the financial statements.

#### Economic Factors and Next Year's Budget

The District's elected officials considered many factors when setting the Fiscal Year 2021 budget. Some of the economic factors taken into account for the budget include monthly service charges and connection fees.

The District budgeted two major projects for the Fiscal Year 2021. The *Treatment Plant Intake Pump Project* - An additional intake pump is being installed at the Power's Canal. The addition of another intake pump provides redundancy during outages (maintenance, break-downs, etc.) as well as additional pumping capacity for future expansion. The cost for this project is \$225,000. The *Table Mountain Boulevard and County Center Drive Pipeline Replacement Project* consists of removal and replacement of two parallel water mains with a new 18" C900 water main within the intersection of Table Mountain Boulevard and County Center Drive. Additionally, isolation valves will be installed on either side of the bridge crossing the Power's Canal to provide flow control of the main for future projects. The cost for this project is \$320,000.

# **THERMALITO WATER AND SEWER DISTRICT**

Management's Discussion and Analysis  
For the Year Ended June 30, 2020

## **District Financial Management**

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Thermalito Water and Sewer District, 410 Grand Avenue, Oroville, California 95965.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**THERMALITO WATER AND SEWER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**  
(with comparative data for June 30, 2019)

	2020	2019
<b>ASSETS</b>		
Current Assets:		
Cash and investments	\$ 5,690,935	\$ 6,056,304
Accounts receivable	35,666	48,662
Interest receivable	17,209	30,510
Inventory	34,404	85,207
Prepaid items	9,336	9,058
Capital Assets, net	16,150,625	15,051,098
Restricted assets:		
Restricted cash and investments	1,031,716	1,048,955
Total Assets	22,969,891	22,329,794
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	317,268	347,528
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	49,238	291,696
Accounts payable - SC-OR	119,733	100,346
Salaries and wages payable	6,495	26,300
Customer advances	3,352	1,731
Interest payable	45,998	49,307
Retirement payable	1,565	2,379
Current portion of notes payable	121,675	257,841
Total current liabilities	348,056	729,600
Non-Current liabilities:		
Compensated absences liability	362,859	331,712
Net pension liability	994,244	891,804
Notes payable, net of current portion	2,163,953	2,285,628
Total Non-Current liabilities	3,521,056	3,509,144
Total liabilities	3,869,112	4,238,744
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension inflows	77,652	96,009
<b>NET POSITION</b>		
Net investment in capital assets	13,864,997	12,507,629
Restricted:		
Debt service	169,673	311,626
Capacity fees	862,043	737,329
Unrestricted	4,443,682	4,785,985
<b>TOTAL NET POSITION</b>	<b>\$ 19,340,395</b>	<b>\$ 18,342,569</b>

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



**THERMALITO WATER AND SEWER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(with comparative data for June 30, 2019)**

	2020	2019
<b>Operating Revenues:</b>		
Water sales	\$ 2,173,359	\$ 2,119,944
Water services	438,019	709,030
Sewer use sales and services	1,393,339	1,332,543
Other income	23,254	16,884
	<u>4,027,971</u>	<u>4,178,401</u>
<b>Operating Expenses:</b>		
Wilenor water supply	39,461	38,600
Water treatment	392,436	376,068
Transmission and distribution	589,057	589,172
Administration and general	975,038	905,972
Depreciation	658,029	610,139
Sewerage collection	117,215	107,658
SC-OR charges	475,083	396,590
	<u>3,246,319</u>	<u>3,024,199</u>
Total Operating Expenses	<u>3,246,319</u>	<u>3,024,199</u>
Operating Income	<u>781,652</u>	<u>1,154,202</u>
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	132,925	74,981
Capacity charges	107,728	151,367
Other non-operating income	-	60
Interest expense	(50,479)	(57,640)
Gain (loss) on disposal of assets	26,000	21,453
	<u>216,174</u>	<u>190,221</u>
Total Non-Operating Income	<u>216,174</u>	<u>190,221</u>
Change in Net Position	997,826	1,344,423
Beginning Net Position	<u>18,342,569</u>	<u>16,998,146</u>
Ending Net Position	<u>\$ 19,340,395</u>	<u>\$ 18,342,569</u>

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

**THERMALITO WATER AND SEWER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(with comparative data for June 30, 2019)**

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 4,044,889	\$ 4,115,187
Cash paid to suppliers	(1,251,009)	(741,148)
Cash paid for employee salaries and benefits	(1,387,257)	(1,310,212)
Net cash provided by operating activities	1,406,623	2,063,827
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	(1,757,556)	(1,064,078)
Proceeds from capacity charges	107,728	151,367
Proceeds from solar electric generation	-	60
Proceeds from sale of assets	26,000	23,781
Principal paid on loans	(257,841)	(272,659)
Interest paid on loans	(53,788)	(61,012)
Net cash used by capital and related financing activities	(1,935,457)	(1,222,541)
<b>Cash flows from investing activities:</b>		
Investment income received	146,226	64,190
Net cash provided by investing activities	146,226	64,190
Net increase in cash and cash equivalents	(382,608)	905,476
Cash and cash equivalents, beginning of year	7,105,259	6,199,783
Cash and cash equivalents, end of year	\$ 6,722,651	\$ 7,105,259
<b>Reconciliation of Cash and Cash Equivalents:</b>		
Cash and cash equivalents	\$ 5,690,935	\$ 6,056,304
Restricted cash and cash equivalents	1,031,716	1,048,955
Total Cash and Cash Equivalents	\$ 6,722,651	\$ 7,105,259

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

**THERMALITO WATER AND SEWER DISTRICT**  
**STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 781,652	\$ 1,154,202
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	658,029	610,139
Changes in assets and liabilities:		
Accounts receivable	12,996	(7,248)
Inventory	50,803	(25,234)
Prepaid expenses	(278)	10,414
Accounts payable	(242,458)	206,692
Accounts payable - SC-OR	19,387	1,671
Customer advances	1,621	(3,358)
Project advances	-	(2,500)
Accrued salaries and wages	(19,805)	(3,401)
Retirement payable	(814)	600
Compensated absences liability	31,147	29,755
Net pension liability	114,343	92,095
<b>Net cash provided by operating activities</b>	<b>\$ 1,406,623</b>	<b>\$ 2,063,827</b>

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

## **FUND FINANCIAL STATEMENTS**

**THERMALITO WATER AND SEWER DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Water Services	Sewer Services	Total
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 3,408,872	\$ 2,282,063	\$ 5,690,935
Accounts receivable	17,449	18,217	35,666
Interest receivable	13,767	3,442	17,209
Due from other funds	178,541	106,068	284,609
Inventory	33,701	703	34,404
Prepaid items	9,336	-	9,336
Total Current Assets	<u>3,661,666</u>	<u>2,410,493</u>	<u>6,072,159</u>
Restricted and Noncurrent assets:			
Restricted cash and investments	452,020	579,696	1,031,716
Capital assets, net	10,040,689	6,109,936	16,150,625
Total Assets	<u>14,154,375</u>	<u>9,100,125</u>	<u>23,254,500</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension outflows	260,160	57,108	317,268
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	49,149	89	49,238
Salaries and wages payable	4,352	2,143	6,495
Accounts payable - SC-OR	-	119,733	119,733
Due to other funds	106,068	178,541	284,609
Customer advances	3,352	-	3,352
Interest payable	-	45,998	45,998
Retirement payable	1,565	-	1,565
Current portion of notes payable	-	121,675	121,675
Total Current Liabilities	<u>164,486</u>	<u>468,179</u>	<u>632,665</u>
Long-Term Liabilities:			
Compensated absences liability	290,287	72,572	362,859
Net pension liability	815,280	178,964	994,244
Notes payable, net of current portion	-	2,163,953	2,163,953
Total Liabilities	<u>1,270,053</u>	<u>2,883,668</u>	<u>4,153,721</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension inflows	63,675	13,977	77,652
<b>NET POSITION</b>			
Net investment in capital assets	10,040,689	3,824,308	13,864,997
Restricted:			
Debt service	-	169,673	169,673
Capacity fees	452,020	410,023	862,043
Unrestricted	2,588,098	1,855,584	4,443,682
<b>TOTAL NET POSITION</b>	<u>\$ 13,080,807</u>	<u>\$ 6,259,588</u>	<u>\$ 19,340,395</u>

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

**THERMALITO WATER AND SEWER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Water Services	Sewer Services	Total
<b>Operating Revenues:</b>			
Water sales	\$ 2,173,359	\$ -	\$ 2,173,359
Water services	438,019	-	438,019
Sewer use sales and services	-	1,393,339	1,393,339
Other income	23,254	-	23,254
	<u>2,634,632</u>	<u>1,393,339</u>	<u>4,027,971</u>
<b>Operating Expenses:</b>			
Wilenor water supply	39,461	-	39,461
Water treatment	392,436	-	392,436
Transmission and distribution	545,042	44,015	589,057
Administration and general	622,868	352,170	975,038
Depreciation	418,722	239,307	658,029
Sewerage collection	-	117,215	117,215
SC-OR charges	-	475,083	475,083
	<u>2,018,529</u>	<u>1,227,790</u>	<u>3,246,319</u>
Operating Income	<u>616,103</u>	<u>165,549</u>	<u>781,652</u>
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	106,340	26,585	132,925
Capacity charges	50,923	56,805	107,728
Interest expense	(2,375)	(48,104)	(50,479)
Gain (loss) on disposal of assets	26,000	-	26,000
	<u>180,888</u>	<u>35,286</u>	<u>216,174</u>
Change in Net Position	796,991	200,835	997,826
Beginning Net Position	<u>12,283,816</u>	<u>6,058,753</u>	<u>18,342,569</u>
Ending Net Position	<u>\$ 13,080,807</u>	<u>\$ 6,259,588</u>	<u>\$ 19,340,395</u>

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

**THERMALITO WATER AND SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020**

	Water Services	Sewer Services	Total
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 2,670,637	\$ 1,374,252	\$ 4,044,889
Cash paid to suppliers	(370,126)	(880,883)	(1,251,009)
Cash paid for employee salaries and benefits	(1,085,982)	(301,275)	(1,387,257)
Net cash provided by operating activities	<u>1,214,529</u>	<u>192,094</u>	<u>1,406,623</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(1,667,271)	(90,285)	(1,757,556)
Proceeds from capacity charges	50,923	56,805	107,728
Proceeds from sale of assets	26,000	-	26,000
Principal paid on loans	(138,669)	(119,172)	(257,841)
Interest paid on loans	(3,285)	(50,503)	(53,788)
Net cash used by capital and related financing activities	<u>(1,732,302)</u>	<u>(203,155)</u>	<u>(1,935,457)</u>
<b>Cash flows from investing activities:</b>			
Investment income received	<u>116,981</u>	<u>29,245</u>	<u>146,226</u>
Net cash provided by investing activities	<u>116,981</u>	<u>29,245</u>	<u>146,226</u>
Net increase in cash and cash equivalents	(400,792)	18,184	(382,608)
Cash and cash equivalents, beginning of year	<u>4,261,684</u>	<u>2,843,575</u>	<u>7,105,259</u>
Cash and cash equivalents, end of year	<u>\$ 3,860,892</u>	<u>\$ 2,861,759</u>	<u>\$ 6,722,651</u>
<b>Reconciliation of Cash and Cash Equivalents:</b>			
Cash and cash equivalents	\$ 3,408,872	\$ 2,282,063	\$ 5,690,935
Restricted cash and cash equivalents	<u>452,020</u>	<u>579,696</u>	<u>1,031,716</u>
Total cash and cash equivalents	<u>\$ 3,860,892</u>	<u>\$ 2,861,759</u>	<u>\$ 6,722,651</u>

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

**THERMALITO WATER AND SEWER DISTRICT  
STATEMENT OF CASH FLOWS (Continued)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020**

	Water Services	Sewer Services	Total
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 616,103	\$ 165,549	\$ 781,652
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	418,722	239,307	658,029
Changes in assets and liabilities:			
Accounts receivable	8,329	4,667	12,996
Due from other funds	26,055	(23,754)	2,301
Inventory	49,366	1,437	50,803
Prepaid expenses	(278)	-	(278)
Accounts payable	(25,060)	(217,398)	(242,458)
Accounts payable - SC-OR	-	19,387	19,387
Customer advances	1,621	-	1,621
Accrued salaries and wages	(21,948)	2,143	(19,805)
Due to other funds	23,754	(26,055)	(2,301)
Retirement payable	(814)	-	(814)
Compensated absences liability	24,917	6,230	31,147
Net pension liability	93,762	20,581	114,343
<b>Net cash provided by operating activities</b>	<b>\$ 1,214,529</b>	<b>\$ 192,094</b>	<b>\$ 1,406,623</b>

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



**NOTES TO THE FINANCIAL STATEMENTS**

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## **Note 1: Summary of Significant Accounting Policies**

Thermalito Water and Sewer District (District) is a public agency formed and existing under the laws of the State of California, and as such is a non-profit, tax-exempt district. It exists pursuant to Section 20700 of the California Water Code. The District supplies water and sewer services to customers in the Oroville area.

### **Reporting Entity**

The District's financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units which come under the criteria for inclusion. The District is not a component unit of any other government entity.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

The activities of the District are accounted for using two proprietary (enterprise) funds. Enterprise funds are used to account for activities similar to those found in private business enterprises, where the determination of net income is necessary or useful for sound financial management and services are provided to outside parties.

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses for the District include salaries and benefits, supplies and other services, insurance premiums, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## **Note 1: Summary of Significant Accounting Policies - continued**

### **Budget Basis of Accounting**

The budgets of the District are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the following exceptions:

- a) Depreciation is not budgeted as an expense,
- b) Capital outlays are budgeted as a current expense, and
- c) Certain non-operating revenues and expenses are not budgeted.

### **Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

### **Cash and Investments**

For purposes of the statement of cash flows, the District's cash and cash equivalents include restricted and unrestricted cash on hand or on deposit, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District has adopted a formal investment policy as required by Section 53600 et seq., of the California Government Code. The District's treasurer has responsibility for selecting depositories and investing idle funds in accordance with the adopted investment policy. See Note 2 for additional information on the District's cash and investments.

### **Accounts Receivable**

Accounts receivable consist primarily of amounts due on water and sewer services. Delinquent accounts for water or sewer services are treated pursuant to Water Code 10, Chapter 3, Article 1, Section 25806, 25807, and 25650, also named *Resolution Adding Unpaid Charges to the Annual Assessment*. In process, the District compiles their outstanding accounts receivable and submits them to the County of Butte. The County attaches these amounts due to the balance of the property tax bill. By doing this, the District is assured by the County of Butte of receiving the unpaid amounts within twelve months of the date of submission and, therefore, no doubtful account allowances were deemed necessary at June 30, 2020 and 2019.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## **Note 1: Summary of Significant Accounting Policies - continued**

### **Inventory of Materials and Supplies**

Inventory of materials and supplies consists primarily of water meters, pipes, and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at lower of cost or market using a first-in, first-out (FIFO) basis. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

### **Prepaid Expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

### **Compensated Absences**

The District maintains a Memorandum of Understanding (MOU) with its employees for unused vacation and sick leave. The two major items contained in the MOU are: (1) that, upon termination of employment, each employee shall be paid an amount in salary equal to his/her unused accumulated vacation pay, and (2) that, upon retirement, death, or disability, each employee shall be paid an amount equal to 50% of his/her accumulated unused sick pay with a maximum payout of 1000 hours. The District did not have any other post-employment benefit obligations (OPEB) for the fiscal years ended June 30, 2020 and 2019.

### **Capital Contributions**

Capital contributions represent capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

### **Property, Plant, and Equipment**

Capital assets acquired and/or constructed are capitalized at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. The District provides for depreciation under the straight-line method with useful lives of 3 to 10 years on automotive, furniture, fixtures, and machinery and equipment. All other assets are depreciated under the straight-line method with useful lives ranging from 10 to 50 years, with the exception of Wilenor Dam Storage System, which is 100 years.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## Note 1: Summary of Significant Accounting Policies - continued

### Property, Plant, and Equipment - continued

The District capitalizes interest relating to certain long-term construction projects. Capitalized interest is charged to property and equipment and amortized over the life of the related assets in order to properly match expenses with revenues resulting from the facilities. No interest was capitalized for the fiscal year ended June 30, 2020 or 2019.

### Net Position

The financial statements utilize a net position presentation. Net positions are categorized as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction, or improvement of those assets.
- Restricted Net Position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net positions that do not meet the definition of *restricted* or *net investment in capital assets*.

### Pensions

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

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 2: Cash and Cash Equivalents**

Cash and investments as of June 30, 2020 and 2019, are classified in the accompanying financial statements as follows:

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 5,690,935	\$ 6,056,304
Restricted Assets:		
Cash and cash equivalents	1,031,716	1,048,955
Total Capital Assets, Water	<u>\$ 6,722,651</u>	<u>\$ 7,105,259</u>
Cash on hand	\$ 600	\$ 600
Deposits held with financial institutions	1,384,921	1,961,756
Deposits held with LAIF	5,337,130	5,142,903
Total Cash and Cash Equivalents	<u>\$ 6,722,651</u>	<u>\$ 7,105,259</u>

**Authorized Deposits and Investments**

The District is generally authorized under state statute and local resolutions to invest in demand deposits with financial institutions, savings accounts, certificates of deposit, U.S. Treasury securities, federal agency securities, State of California notes or bonds, notes or bonds of agencies within the State of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the Local Agency Investment Fund (LAIF).

**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. As of June 30, 2020, and 2019, the District's investments had no significant exposure to interest rate risk.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## Note 2: Cash and Cash Equivalents - continued

### **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 risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization. The District does not hold direct investments; therefore, there is no concentration of credit risk.

### **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 and the District's investment policy do 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.

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to 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 (such as LAIF).

The District's carrying amounts with financial institutions were \$1,384,921 and \$1,961,756, and the balances in financial institutions were \$1,391,681 and \$1,962,512 respectively, for 2020 and 2019. Of the balances with financial institutions, \$250,000 was covered by federal depository insurance, and the remaining amounts \$1,141,681 and \$1,712,512 for 2020 and 2019, respectively, were collateralized as described above.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## **Note 2: Cash and Cash Equivalents - continued**

### **Investment in State Investment Pool**

The District is a voluntary participant in LAIF. LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the entity'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.

Investments for the District are reported at fair value. The Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with California Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the Pooled Money Investment Board whose members are the California State Treasurer, California Director of Finance, and the California State Controller. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to dollars held.

## **Note 3: Property Tax**

Property taxes attach as an enforceable lien on property as of January 1st and are payable in two installments, on December 10 and April 10. The District relies on the competency of the County of Butte for the billing, collection, and distribution of its share of property tax revenues.



**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 4: Capital Assets**

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deletions/ Transfers	Balance June 30, 2020
<b>Water Services</b>				
Nondepreciable Capital Assets:				
Land	\$ 126,171	\$ -	\$ -	\$ 126,171
Concow easement	12,968	-	-	12,968
Construction in progress	-	55,430	-	55,430
Total Nondepreciable Capital Assets	<u>139,139</u>	<u>55,430</u>	<u>-</u>	<u>194,569</u>
Capital Assets Being Depreciated:				
Source and supply	15,369,066	1,572,216	(50,761)	16,890,521
General plant and administration	1,213,177	39,625	-	1,252,802
Total Capital Assets Being Depreciated	<u>16,582,243</u>	<u>1,611,841</u>	<u>(50,761)</u>	<u>18,143,323</u>
Less: Accumulated Depreciation:				
Source and supply	(6,932,445)	(360,408)	50,761	(7,242,092)
General plant and administration	(996,797)	(58,314)	-	(1,055,111)
Total Accumulated Depreciation	<u>(7,929,242)</u>	<u>(418,722)</u>	<u>50,761</u>	<u>(8,297,203)</u>
Depreciable Capital Assets, Net	<u>8,653,001</u>	<u>1,193,119</u>	<u>-</u>	<u>9,846,120</u>
Total Capital Assets, Water Services	<u>8,792,140</u>	<u>1,248,549</u>	<u>-</u>	<u>10,040,689</u>
<b>Sewer Services</b>				
Nondepreciable Capital Assets:				
Construction in progress	5,868	-	-	5,868
Total Nondepreciable Capital Assets	<u>5,868</u>	<u>-</u>	<u>-</u>	<u>5,868</u>
Capital Assets Being Depreciated:				
Sewer collection facilities	10,135,674	-	-	10,135,674
Equipment	551,189	90,285	(21,493)	619,981
Total Capital Assets Being Depreciated	<u>10,686,863</u>	<u>90,285</u>	<u>(21,493)</u>	<u>10,755,655</u>
Less: Accumulated Depreciation:				
Sewer collection facilities	(3,987,747)	(203,471)	-	(4,191,218)
Equipment	(446,026)	(35,836)	21,493	(460,369)
Total Accumulated Depreciation	<u>(4,433,773)</u>	<u>(239,307)</u>	<u>21,493</u>	<u>(4,651,587)</u>
Depreciable Capital Assets, Net	<u>6,253,090</u>	<u>(149,022)</u>	<u>-</u>	<u>6,104,068</u>
Total Capital Assets, Sewer Services	<u>6,258,958</u>	<u>(149,022)</u>	<u>-</u>	<u>6,109,936</u>
Total Capital Assets, Net	<u>\$ 15,051,098</u>	<u>\$ 1,099,527</u>	<u>\$ -</u>	<u>\$16,150,625</u>

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 4: Capital Assets - continued**

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deletions/ Transfers	Balance June 30, 2019
<b>Water Services</b>				
Nondepreciable Capital Assets:				
Land	\$ 126,171	\$ -	\$ -	\$ 126,171
Concow easement	12,968	-	-	12,968
Total Nondepreciable Capital Assets	<u>139,139</u>	<u>-</u>	<u>-</u>	<u>139,139</u>
Capital Assets Being Depreciated:				
Source and supply	15,066,909	795,131	(492,974)	15,369,066
General plant and administration	1,218,079	27,183	(32,085)	1,213,177
Total Capital Assets Being Depreciated	<u>16,284,988</u>	<u>822,314</u>	<u>(525,059)</u>	<u>16,582,243</u>
Less: Accumulated Depreciation:				
Source and supply	(7,092,213)	(330,878)	490,646	(6,932,445)
General plant and administration	(975,174)	(51,851)	30,228	(996,797)
Total Accumulated Depreciation	<u>(8,067,387)</u>	<u>(382,729)</u>	<u>520,874</u>	<u>(7,929,242)</u>
Depreciable Capital Assets, Net	<u>8,217,601</u>	<u>439,585</u>	<u>(4,185)</u>	<u>8,653,001</u>
Total Capital Assets, Water Services	<u>8,356,740</u>	<u>439,585</u>	<u>(4,185)</u>	<u>8,792,140</u>
<b>Sewer Services</b>				
Nondepreciable Capital Assets:				
Construction in progress	5,868	-	-	5,868
Total Nondepreciable Capital Assets	<u>5,868</u>	<u>-</u>	<u>-</u>	<u>5,868</u>
Capital Assets Being Depreciated:				
Sewer collection facilities	9,916,008	219,666	-	10,135,674
Equipment	529,091	22,098	-	551,189
Total Capital Assets Being Depreciated	<u>10,445,099</u>	<u>241,764</u>	<u>-</u>	<u>10,686,863</u>
Less: Accumulated Depreciation:				
Sewer collection facilities	(3,789,829)	(197,918)	-	(3,987,747)
Equipment	(418,391)	(27,635)	-	(446,026)
Total Accumulated Depreciation	<u>(4,208,220)</u>	<u>(225,553)</u>	<u>-</u>	<u>(4,433,773)</u>
Depreciable Capital Assets, Net	<u>6,236,879</u>	<u>16,211</u>	<u>-</u>	<u>6,253,090</u>
Total Capital Assets, Sewer Services	<u>6,242,747</u>	<u>16,211</u>	<u>-</u>	<u>6,258,958</u>
Total Capital Assets, Net	<u>\$ 14,599,487</u>	<u>\$ 455,796</u>	<u>\$ (4,185)</u>	<u>\$15,051,098</u>

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 5: Long-Term Liabilities**

The District's long-term liabilities for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
<b>Long-Term Debt:</b>					
Water Services					
2012 City National Bank Loan	\$ 138,669	\$ -	\$ (138,669)	\$ -	\$ -
Subtotal	<u>138,669</u>	<u>-</u>	<u>(138,669)</u>	<u>-</u>	<u>-</u>
Sewer Services					
2014 CA Water Resources	2,404,800	-	(119,172)	2,285,628	121,675
Total Long-Term Debt	<u>\$ 2,543,469</u>	<u>\$ -</u>	<u>\$ (257,841)</u>	<u>\$ 2,285,628</u>	<u>\$ 121,675</u>
<b>Accrued Compensation:</b>					
Water	\$ 265,370	\$ 72,970	\$ (48,053)	\$ 290,287	
Sewer	66,342	18,243	(12,013)	72,572	
Total Accrued Compensation	<u>\$ 331,712</u>	<u>\$ 91,213</u>	<u>\$ (60,066)</u>	<u>\$ 362,859</u>	
<b>Net Pension Liability:</b>					
Water	\$ 731,279	\$ 84,001	\$ -	815,280	
Sewer	160,525	18,439	-	178,964	
Total Net Pension Liability	<u>\$ 891,804</u>	<u>\$ 102,440</u>	<u>\$ -</u>	<u>\$ 994,244</u>	

The District's long-term liabilities for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
<b>Long-Term Debt:</b>					
Water Services					
2012 City National Bank Loan	\$ 294,607	\$ -	\$ (155,938)	\$ 138,669	\$ 138,669
Subtotal	<u>294,607</u>	<u>-</u>	<u>(155,938)</u>	<u>138,669</u>	<u>138,669</u>
Sewer Services					
2014 CA Water Resources	2,521,521	-	(116,721)	2,404,800	119,172
Total Long-Term Debt	<u>\$ 2,816,128</u>	<u>\$ -</u>	<u>\$ (272,659)</u>	<u>\$ 2,543,469</u>	<u>\$ 257,841</u>
<b>Accrued Compensation:</b>					
Water	\$ 241,566	\$ 82,610	\$ (58,806)	\$ 265,370	
Sewer	60,391	20,652	(14,701)	66,342	
Total Accrued Compensation	<u>\$ 301,957</u>	<u>\$ 103,262</u>	<u>\$ (73,507)</u>	<u>\$ 331,712</u>	
<b>Net Pension Liability:</b>					
Water	\$ 846,975	\$ -	\$ (115,696)	\$ 731,279	
Sewer	198,673	-	(38,148)	160,525	
Total Net Pension Liability	<u>\$ 1,045,648</u>	<u>\$ -</u>	<u>\$ (153,844)</u>	<u>\$ 891,804</u>	

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 5: Long-Term Liabilities - continued**

Bonds and notes payable consist of the following as of June 30, 2020:

**2014 Installment Sale Agreement/California State Water Resources Control Board:** On May 1, 2014, the District entered into an installment Sale Agreement with California State Water Resources Control Board to finance the East Trunk Line Replacement Project. The project was completed during the fiscal year. The current loan balance at June 30, 2020, is \$2,285,628. Interest on the loan is 2.1% and payable in annual installments over twenty years. The annual principal payments range from \$122,989 to \$166,183. The first payment was due on July 17, 2016. The City of Oroville has entered into an agreement to fund 75% of the reserve account requirement and to pay 75% of all the debt service payments.

**2012 Installment Sale Agreement/City National Note Payable:** On April 13, 2012, the District entered into an Installment Sale Agreement (later referred to as Note) with Municipal Finance Corporation (seller) and City National Bank (assignee/trustee) in order to finance the office and treatment plant solar power projects. The Note is secured by a pledge of and lien on the net revenues of the Water System on parity with the pledge and lien that secures the 2005 Bonds initially financed for the 2005 Water System Project. The original principal amount of the Note related to Thermalito Water and Sewer District was \$1,478,817. The final payment on this loan was made in March 2020 and the loan balance as of June 30, 2020 is zero.

The following is a schedule of long-term debt payments:

<u>Sewer Services</u>			
<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 121,675	\$ 47,998	\$ 169,673
2022	124,230	45,443	169,673
2023	126,839	42,834	169,673
2024	129,502	40,171	169,673
2025	132,222	37,451	169,673
2026-2030	703,946	144,420	848,366
2031-2035	781,030	67,336	848,366
2036	166,184	3,490	169,674
Total	<u>\$ 2,285,628</u>	<u>\$ 429,143</u>	<u>\$ 2,714,771</u>

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 6: Defined Benefit Pension Plan**

**A. General Information about the Pension Plans**

**Plan Description**

The District approved a contract with the Board of Administration, California Public Employees’ Retirement System (CalPERS) on March 16, 2004, to provide pensions for staff, which began May 1, 2004. The District is required to make a monthly contribution to CalPERS to include actuarial valuations of prior and future years of service of each employee. All eligible District employees participate in CalPERS. The District is required to participate in a CalPERS cost-sharing, multiple-employer defined benefit retirement plan, since the District had less than 100 active members. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

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

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, 2020, are summarized as follows:

Hire date	<u>Prior to January 1, 2014</u>	<u>On or After January 1, 2014</u>
Benefit formula	3.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefits payments	Monthly for life	Monthly for life
Retirement age	55 - 60	62 - 67
Monthly benefits as % of eligible compensation	3.0%	1.0% to 2.5%
Required employee contributions	8%	6.25%
Required employer contribution rates	13.692%	6.985%

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 6: Defined Benefit Pension Plan - continued**

**A. General Information about the Pension Plans - continued**

*Contributions* – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2020, the contributions for the Plan were as follows:

Contributions – employer	\$154,916
Contributions – employee (paid by employer)	64,936

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

As of June 30, 2020, the District reported net pension liability of \$994,244 for its share of the net pension liability of the Plan. The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability for the Plan as of June 30, 2019 and 2020, was as follows:

Proportion - June 30, 2019	0.02366%
Proportion - June 30, 2020	<u>0.02483%</u>
Change - Increase	0.00117%

For the fiscal year ended June 30, 2020, the District recognized pension expense of \$337,812 in its financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 6: Defined Benefit Pension Plan – continued**

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

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2019, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.15%
Inflation	2.50%
Payroll growth	2.75%
Projected salary increase <sup>(1)</sup>	Varies by Entry Age and Service
Investment rate of return <sup>(2)</sup>	7.15%
Mortality <sup>(3)</sup>	CalPERS Table

<sup>(1)</sup> Depending on age, service, and type of employment

<sup>(2)</sup> Net of pension plan investment expenses, including inflation

<sup>(3)</sup> 20 years of mortality improvement – Society of Actuaries Scale AA

The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The long-term expected rate of return on pension plan investments (7.15%) 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. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	50.0%	5.98%
Fixed Income	28.0%	2.62%
Inflation Sensitive	0.0%	1.81%
Private Equity	8.0%	7.23%
Real Assets	13.0%	4.93%
Liquidity	1.0%	(0.92)%

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 6: Defined Benefit Pension Plan – continued**

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

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents 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 (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District's proportionate share of the net pension plan liability	\$ 1,624,374	\$ 994,244	\$ 474,115

Detailed information about the pension fund’s fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.



**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 6: Defined Benefit Pension Plan – continued**

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

Deferred Inflows and Outflows

At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 30,604	\$ -
Differences between expected and actual experience	63,704	-
Differences between projected and actual investment earnings	-	17,382
Differences between employer's contributions and proportionate share of contributions	19,807	24,385
Change in employer's proportion	48,237	35,885
Pension contributions made subsequent to measurement date	154,916	-
Total	\$ 317,268	\$ 77,652

As of June 30, 2020, the District reported \$154,916 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year-end June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 91,867
2022	(23,388)
2023	12,708
2024	3,513
Total	\$ 84,700

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

## **Note 7: Deferred Compensation Plan**

Prior to contracting with CalPERS, the District maintained a Public Employees Deferred Compensation Plan for substantially all of its employees with Mass Mutual and John Hancock Life Insurance Company. There were no contributions made to these plans during the fiscal years ended June 30, 2020 and 2019. The value of the total assets of the plans as of June 30, 2020 and 2019, was \$383,355 and \$457,874, respectively.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributed to those amounts, property, or rights are held in trust for the exclusive benefit of the plan participants and their beneficiaries. As required by GASB No. 32, the District does not meet the criteria for inclusion of plan assets within its financial statements and has, therefore, excluded the plan assets from the accompanying financial statements.

## **Note 8: Joint Powers Agreement**

On March 29, 1973, the District, the City of Oroville, and Lake Oroville Area Public Utility District entered into a Joint Exercise of Powers Agreement that reorganized its governing board and created an independent agency known as the Sewerage Commission – Oroville Region (SC-OR). SC-OR was created to operate a sewerage treatment plant for the mutual advantage of the member entities. Two members (only one with voting powers) of SC-OR's Board of Commissioners are appointed by each member entity. SC-OR's operating and capital budget are funded by user charges for sewerage treatment services provided to the residents of each member entity. Each member entity is responsible for billing, collecting, and remitting SC-OR's user charges applicable to their separate residents. At June 30, 2020 and 2019, the District held \$119,733 and \$100,346, respectively, in unremitted SC-OR service charges that have been reported as a liability on the accompanying balance sheet.

SC-OR's separate financial statements may be obtained by contacting its administrative offices at:

P.O. Box 1350  
Oroville, CA 95965

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2020

**Note 8: Joint Powers Agreement - continued**

Noted below is a condensed audited balance sheet and income statement of SC-OR as of June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Cash	\$13,788,592	\$11,500,443
Other assets	10,235,918	9,969,796
Deferred outflows of resources	548,891	573,044
Total Assets and Deferred Outflows of Resources	\$24,573,401	\$22,043,283
Liabilities	\$ 2,573,954	\$ 2,198,234
Deferred inflows of resources	116,338	110,970
Net position	21,883,109	19,734,079
Total Assets and Deferred Inflows of Resources	\$24,573,401	\$22,043,283
Total revenues	\$ 4,833,499	\$ 4,923,330
Total expenses	(2,684,469)	(2,901,702)
Change in Net Position	\$ 2,149,030	\$ 2,021,628

**Note 9: Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the District's policy to transfer the risks that may arise from these and other events through the purchase of commercial insurance through the ACWA/JPIA. Over the past three years, no loss settlements have exceeded insurance coverage amounts.

**Note 10: Interfund Balances**

Transactions between funds of the District are recorded as inter-fund transfers in the individual fund financial statements but are eliminated and not reported on the government wide financial statements. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds on the statement of net position.

The balance in the individual fund financial statements of \$178,541 due to the Water fund from the Sewer fund and \$106,068 due to the Sewer from the Water fund resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2020

**Note 11: Medical Expense Reimbursement Plan**

The District, on January 1, 2013, terminated their Health Insurance Plan with CalPERS and went to a high deductible plan and established a medical expense reimbursement plan. The Plan is on a calendar year basis, and each employee may submit medical costs for reimbursement up to \$3,000 per calendar year, with no carry over provisions if the employee does not use the \$3,000. The total exposure to the District if all employees were to submit reimbursements up to the maximum amount would be \$33,000 per calendar year.

**Note 12: Subsequent Events**

Management has evaluated subsequent events through September 10, 2020, the date which the financial statements were available to be issued. Based upon this evaluation, except for the following, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19 has proven to be extremely virulent with transmission rates as yet unknown. The economic impact in the State of California and the County of Butte as yet has not been determined and therefore any potential impact on the District is not yet known.

**REQUIRED SUPPLEMENTARY INFORMATION**

**THERMALITO WATER AND SEWER DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

<b>Measurement Date</b>	<b><u>June 30, 2019</u></b>	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>	<b><u>June 30, 2014</u></b>
Proportion of the net pension liability	0.0248300%	0.0236600%	0.0265300%	0.0288600%	0.0330000%	0.0400000%
Proportionate share of the net pension liability	\$ 994,244	\$ 891,804	\$ 1,045,648	\$ 1,002,395	\$ 806,087	\$ 953,065
Covered-employee payroll	\$ 725,751	\$ 655,266	\$ 655,266	\$ 710,862	\$ 613,551	\$ 619,918
Proportionate share of the net pension liability as a percentage of covered-employee payroll	137.00%	136.10%	159.58%	141.01%	131.38%	153.74%
Plan's fiduciary net position	\$ 3,690,637	\$ 3,540,434	\$ 3,315,658	\$ 2,884,890	\$ 2,617,555	\$ 2,456,620
Plan's fiduciary net position as a percentage of the total pension liability	78.78%	79.88%	76.02%	74.21%	74.30%	72.05%

Note: Fiscal year 2015 was the first year of implementation. Additional years will be presented as they become available.

**THERMALITO WATER AND SEWER DISTRICT  
SCHEDULE OF PENSION CONTRIBUTIONS**

<b>Measurement Date</b>	<b><u>June 30, 2019</u></b>	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>	<b><u>June 30, 2014</u></b>
Contractually required contributions (actuarially determined)	\$ 154,916	\$ 135,277	\$ 110,833	\$ 219,357	\$ 212,772	\$ 206,386
Contributions in relation to the actuarially determined contributions	<u>(154,916)</u>	<u>(135,277)</u>	<u>(110,833)</u>	<u>(219,357)</u>	<u>(212,772)</u>	<u>(206,386)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 725,751	\$ 655,266	\$ 655,266	\$ 710,862	\$ 613,551	\$ 619,918
Contributions as a percentage of covered- employee payroll	21.35%	20.64%	16.91%	30.86%	34.68%	33.29%
Valuation date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

Note: Fiscal year 2015 was the first year of implementation. Additional years will be presented as they become available.

**OTHER SUPPLEMENTARY INFORMATION**



**THERMALITO WATER AND SEWER DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL - WATER**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**WATER SERVICES**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Water sales	\$ 2,347,500	\$ 2,173,359	\$ (174,141)
Water services	215,300	438,019	222,719
Other income	7,000	23,254	16,254
 Total Operating Revenues	 2,569,800	 2,634,632	 64,832
<b>Operating Expenses:</b>			
Wilenor water supply	51,055	39,461	11,594
Water treatment	454,919	392,436	62,483
Transmission and distribution	561,752	545,042	16,710
Administration and general	505,430	622,868	(117,438)
 Total Operating Expenses	 1,573,156	 1,599,807	 (26,651)
 Operating Income	 996,644	 1,034,825	 38,181
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	85,000	106,340	21,340
Capacity charges	25,000	50,923	25,923
Gain on disposal of assets	-	26,000	26,000
Interest expense	(3,284)	(2,375)	909
 Total Non-Operating Income	 106,716	 180,888	 74,172
<b>Other Budgeted Items</b>			
Principal payments on notes	(138,669)	(138,669)	-
Capital expenditures	(1,559,000)	(1,667,271)	(108,271)
Total Other Budgeted Items	(1,697,669)	(1,805,940)	(108,271)
 Net Income - Budget Basis	 \$ (594,309)	 (590,227)	 \$ 4,082
 Beginning Net Position		12,283,816	
<b>Reconcile Budget to GAAP Basis:</b>			
Capital expenditures		1,667,271	
Principal payments on notes		138,669	
Depreciation (not budgeted)		(418,722)	
 Ending Net Position		 \$ 13,080,807	

**THERMALITO WATER AND SEWER DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL - SEWER**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**SEWER SERVICES**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Sewer use sales and services	\$ 1,329,896	\$ 1,393,339	\$ 63,443
Total Operating Revenues	1,329,896	1,393,339	63,443
<b>Operating Expenses:</b>			
Transmission and distribution	44,000	44,015	(15)
Administration and general	398,896	352,170	46,726
Sewerage collection	135,885	117,215	18,670
SC-OR charges	475,498	475,083	415
Total Operating Expenses	1,054,279	988,483	65,796
Operating Income	275,617	404,856	129,239
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	21,350	26,585	5,235
Capacity charges	13,633	56,805	43,172
Interest expense	(50,501)	(48,104)	2,397
Total Non-Operating (Loss) Income	(15,518)	35,286	50,804
<b>Other Budgeted Items</b>			
Principal payments on notes	(119,172)	(119,172)	-
Capital expenditures	(143,722)	(90,285)	53,437
Total Other Budgeted Items	(262,894)	(209,457)	53,437
Net (Loss) Income - Budget Basis	\$ (2,795)	230,685	\$ 233,480
Beginning Net Position		6,058,753	
<b>Reconcile Budget to GAAP Basis:</b>			
Capital expenditures		90,285	
Principal payments on notes		119,172	
Depreciation (not budgeted)		(239,307)	
Ending Net Position		\$ 6,259,588	

**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***

Board of Directors  
Thermalito Water and Sewer District  
Oroville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of Thermalito Water and Sewer District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2020.

**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 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.

Board of Directors  
Thermalito Water and Sewer District  
Oroville, California

### **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 entity's internal control or on compliance. The report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company,  
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California  
September 10, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE RELATING TO THE  
SEWERAGE COMMISSION – OROVILLE REGION**

Board of Directors  
Thermalito Water and Sewer District  
Oroville, California 95966

We have audited the basic financial statements of the Thermalito Water and Sewer District (District) for the year ended June 30, 2020, and we have issued our report thereon dated September 10, 2020. Our audit of such basic financial statements was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

The management of the District is responsible for the District's compliance with various resolutions and policies of the Sewerage Commission – Oroville Region (SC-OR) pertaining to the sewer regional facility charges and monthly sewer service charges. In connection with our audit referred to above, we selected and tested transactions and records applicable to new sewer connections and monthly sewer service charges to determine the District's compliance with SC-OR's resolutions and policies.

The results of our tests indicate that, with respect to the items tested, the District complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Board of Directors, management, and the Sewerage Commission – Oroville Region and is not intended to be and should not be used by anyone other than these specified parties.

Fechter & Company,  
Certified Public Accountants



Sacramento, California  
September 10, 2020