

CHESTER PUBLIC UTILITIES DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

CHESTER PUBLIC UTILITIES DISTRICT

CHESTER, CALIFORNIA

JUNE 30, 2019

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Steve Trotter	Chairman	December 2021
Joe Waterman	Vice Chairman	December 2023
Steve Voboril	Secretary/Treasurer	December 2021
Royce Raker	Director	December 2021
Steve Graffweg	Director	December 2021

ADMINISTRATION

Frank Motzkus	General Manager
Cheryl Johnson	Office Manager
Brian Layne	ESD / Fire Chief

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CHESTER PUBLIC UTILITIES DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chester Public Utilities District
Chester, California

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each fund of the Chester Public Utilities District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Chester Public Utilities District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Chester Public Utilities District's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each fund of the Chester Public Utilities District, as of June 30, 2019, 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.

FIDELINIS
ACQUINTANIO

Other Matters

Required Supplementary Information


Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 29–31, 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.

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

Other Information

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2020 on our consideration of Chester Public Utilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Chester Public Utilities District's internal control over financial reporting and compliance.

K J Danner Accountancy


June 23, 2020

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BASIC FINANCIAL STATEMENTS

CHESTER PUBLIC UTILITIES DISTRICT

STATEMENTS OF NET POSITION
JUNE 30, 2019

	Lighting	Water	Sewer
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,690	\$ 1,096	\$ 375,168
Accrued receivables	-	77,013	58,702
Due from other funds	-	-	1,401,195
Prepaid expenses	-	5,694	5,694
Total current assets	1,690	83,803	1,840,759
Non-current assets			
Certificates of deposit	-	-	-
Capital assets, non-depreciable	-	39,041	93,254
Capital assets, depreciable	-	1,915,300	4,081,964
Total non-current assets	-	1,954,341	4,175,218
Total Assets	1,690	2,038,144	6,015,977
DEFERRED OUTFLOWS OF RESOURCES	-	114,000	114,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,690	\$ 2,152,144	\$ 6,129,977
LIABILITIES			
Current liabilities			
Accrued payables	\$ 2,075	\$ 19,224	\$ 20,098
Due to other funds	-	362,813	-
Total current liabilities	2,075	382,037	20,098
Non-current liabilities			
Customer deposits	-	5,089	8,342
Long-term liabilities	-	555,000	555,000
Total non-current liabilities	-	560,089	563,342
Total Liabilities	2,075	942,126	583,440
DEFERRED INFLOWS OF RESOURCES	-	18,000	18,000
NET POSITION			
Net investment in capital assets	-	1,954,341	4,175,218
Unrestricted - (Deficit)	(385)	(762,323)	1,353,319
Total Net Position (Deficit)	(385)	1,192,018	5,528,537
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 1,690	\$ 2,152,144	\$ 6,129,977

The accompanying notes are an integral part of these financial statements

Contract Fire

Fire	Revenue	Ambulance	Total
\$ 100	\$ 1,012,940	\$ 43,164	\$ 1,434,158
305,658	1,524,459	228,743	2,194,575
374,970	3,191,981	139,649	5,107,795
-	-	-	11,388
680,728	5,729,380	411,556	8,747,916
-	752,777	-	752,777
7,000	-	-	139,295
397,196	-	28,341	6,422,801
404,196	752,777	28,341	7,314,873
1,084,924	6,482,157	439,897	16,062,789
185,000	-	185,000	598,000
\$ 1,269,924	\$ 6,482,157	\$ 624,897	\$ 16,660,789
\$ 291,229	\$ 1,211,317	\$ 6,048	\$ 1,549,991
2,968,817	1,401,195	374,970	5,107,795
3,260,046	2,612,512	381,018	6,657,786
-	-	-	13,431
753,000	-	622,000	2,485,000
753,000	-	622,000	2,498,431
4,013,046	2,612,512	1,003,018	9,156,217
8,000	-	8,000	52,000
404,196	-	28,341	6,562,096
(3,155,318)	3,869,645	(414,462)	890,476
(2,751,122)	3,869,645	(386,121)	7,452,572
\$ 1,269,924	\$ 6,482,157	\$ 624,897	\$ 16,660,789

CHESTER PUBLIC UTILITIES DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Lighting	Water	Sewer
OPERATING REVENUE			
Sales	\$ -	\$ 555,403	\$ 540,866
Services		-	-
Miscellaneous	3,878	22,483	(641)
Total operating revenue	3,878	577,886	540,225
OPERATING EXPENSE			
Salaries	-	155,355	155,886
Benefits	-	186,162	186,571
Supplies	-	17,676	48,317
Services and other operating	35,623	191,997	230,289
Depreciation	-	102,634	338,001
Total operating expenses	35,623	653,824	959,064
OPERATING GAIN/(LOSS)	(31,745)	(75,938)	(418,839)
NON-OPERATING REVENUES/(EXPENSES)			
Taxes			
Property	-	64,332	94,672
Intergovernmental			
State homeowner exemption	-	466	682
Revenue from use of assets	-	232	897
Other non-operating revenue	-	-	2,100
Interest expense	-	(19)	(19)
Interfund transfer in	31,745	-	-
Interfund transfer out	-	(31,745)	-
Total non-operating revenues/(expenses)	31,745	33,266	98,332
CHANGE IN NET POSITION	-	(42,672)	(320,507)
Net Position (Deficit) - Beginning	(385)	1,234,690	5,849,044
Net Position (Deficit) - Ending	\$ (385)	\$ 1,192,018	\$ 5,528,537

The accompanying notes are an integral part of these financial statements

Contract Fire			
Fire	Revenue	Ambulance	Total
\$ (7,001)	\$ 185,603	\$ 216,816	\$ 1,491,687
859,122	5,953,984	-	6,813,106
-	-	-	25,720
852,121	6,139,587	216,816	8,330,513
939,968	4,402,466	358,002	6,011,677
508,130	433,753	169,254	1,483,870
12,193	7,210	447	85,843
144,398	505,519	61,062	1,168,888
63,595	-	14,172	518,402
1,668,284	5,348,948	602,937	9,268,680
(816,163)	790,639	(386,121)	(938,167)
300,256	-	-	459,260
1,268	-	-	2,416
-	3,675	-	4,804
-	-	-	2,100
(19)	(17)	-	(74)
-	-	-	31,745
-	-	-	(31,745)
301,505	3,658	-	468,506
(514,658)	794,297	(386,121)	(469,661)
(2,236,464)	3,075,348	-	7,922,233
\$ (2,751,122)	\$ 3,869,645	\$ (386,121)	\$ 7,452,572

CHESTER PUBLIC UTILITIES DISTRICT

STATEMENTS OF CASH FLOWS
JUNE 30, 2019

	Lighting	Water	Sewer
Cash flows from operating activities			
Cash receipts from rate payers and operations	\$ 3,878	\$ 562,113	\$ 536,951
Cash payments to employees for services	-	(309,037)	(310,299)
Cash payments to suppliers for goods and services	(33,548)	(220,098)	(265,915)
Net cash provided/(used) by operating activities	(29,670)	32,978	(39,263)
Cash flows from non-capital financing activities			
Non-operating activity	-	-	(13,548)
Tax/assessment receipts	-	67,976	89,946
Interfund cash transfers in/(out)	31,360	(88,156)	(1,636,271)
Net cash provided/(used) by non-capital financing ac	31,360	(20,180)	(1,559,873)
Cash flows from capital and related financing			
Acquisition of capital assets	-	(51,779)	-
Interest paid	-	(19)	(19)
Net cash used in capital and related financing activiti	-	(51,798)	(19)
Cash flows from investing activities			
Interest received	-	232	897
Purchase of investments	-	-	-
Net cash provided/(used) in investing activities	-	232	897
NET INCREASE/(DECREASE) IN CASH	1,690	(38,768)	(1,598,258)
CASH			
Beginning of year	-	39,864	1,973,426
End of year	\$ 1,690	\$ 1,096	\$ 375,168
Reconciliation of operating loss to cash used in operating activities			
Operating Gain/(Loss)	\$ (31,745)	\$ (75,938)	\$ (418,839)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	-	102,634	338,001
(Increase)/decrease in accrued receivables	-	(14,551)	(3,266)
(Increase)/decrease in all other current assets	-	(78)	(78)
Increase/(decrease) in accrued payables	2,075	(8,610)	12,769
Increase/(decrease) in deposits	-	(1,222)	(8)
Increase/(decrease) in payroll and pension related balances	-	30,743	32,158
Net cash used by operating activities	\$ (29,670)	\$ 32,978	\$ (39,263)

The accompanying notes are an integral part of these financial statements

Contract Fire				
Fire	Revenue	Ambulance	Total	
\$ 855,976	\$ 4,787,871	\$ 248,422	\$	6,995,211
(1,435,563)	(3,755,383)	(627,918)		(6,438,200)
(166,756)	(511,805)	(59,157)		(1,257,279)
(746,343)	520,683	(438,653)		(700,268)
-	-	-		(13,548)
283,496	-	-		441,418
462,866	994,880	235,321		-
746,362	994,880	235,321		427,870
-	-	-		(51,779)
(19)	(17)	-		(74)
(19)	(17)	-		(51,853)
-	3,675	-		4,804
-	(752,777)	-		(752,777)
-	(749,102)	-		(747,973)
-	766,444	(203,332)		(1,072,224)
100	246,496	246,496		2,506,382
\$ 100	\$ 1,012,940	\$ 43,164	\$	1,434,158
\$ (816,163)	\$ 790,639	\$ (386,121)	\$	(938,167)
63,595	-	14,172		518,402
3,855	(1,351,716)	31,606		(1,334,072)
-	-	-		(156)
(10,165)	1,014,367	2,352		1,012,788
-	-	-		(1,230)
12,535	67,393	(100,662)		42,167
\$ (746,343)	\$ 520,683	\$ (438,653)	\$	(700,268)

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 - A. Financial Reporting Entity

The fire department and the Chester Public Utilities District merged on 2009, under the provisions of the Public Utilities Code (“PUC”), Division 7, Public Utilities District Act, PUC Code §15501, et seq. The District provides street light, water, sewer, fire and ambulance services to approximately 2,400 residents of the District, located in Chester, California.

1 - B. Basis of Presentation – Proprietary Fund Type – Major Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Street Light Fund. The Street Light Fund is used to account for street lighting subsidization and related expenses.

Water Fund. The Water Fund is used to account water sales, fees, property taxes, and water production, treatment, and delivery expenses.

Sewer Fund. The Sewer Fund is used to account for sewer fees, and sewage treatment expenses

Fire Fund. The Fire Fund is used to account for the property taxes and contract fire services associated with fire protection services and costs associated with providing fire protection.

Contract Fire Revenue Fund. The Contract Fire Revenue Fund accounts for the reimbursement of services provided to the Office of Emergency Management to staff and operate logistical support for forest fires throughout California.

Ambulance Fund. The Ambulance Fund is used to account for the ambulance fees and costs associated with providing ambulance services.

1 - C. Basis of Accounting – Measurement Focus

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
JUNE 30, 2019

1 - D. Assets, Liabilities, and Net Position

Acquisition Value. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Prepaid Items. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Accrued Receivables. All trade and property tax receivables are shown net of an allowance for uncollectibles. The District considers property taxes receivable collected within sixty days after year-end to be available and recognizes them as revenues of the current year.

Capital Assets. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value. The District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized. Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Utility Plant and Infrastructure	10 – 60
Meters and Equipment	5 – 20
Vehicles and Office Equipment	3 – 7

Interfund Balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds" and "Due to other funds."

Pension. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employee Retirement System ("Cal PERS") and additions to/deductions from Cal PERS' fiduciary net position have been determined on the same basis as they are reported by Cal PERS. 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.

Net Position. Net Position represents the difference of assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

1 - E. Revenue and Expenditures/Expenses

Revenues – Exchange Transactions (Program Revenue). Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued JUNE 30, 2019

Property Tax Calendar:

July 1	Beginning of fiscal year
August 31	Unsecured tax deadline. A 10% penalty is added as of 5:00 p.m. (*)
October	Secured tax bills are mailed for current fiscal year. Tax liens recorded for unpaid unsecured taxes.
November 1	First installment of secured taxes is due and payable
December 10	First installment of secured taxes payment deadline. A 10% penalty is added as of 5:00 p.m. (*)
January 1	Tax Lien date (affects the upcoming fiscal year)
February 1	Second installment of secured taxes due and payable.
April 10	Second installment of secured taxes payment deadline. A 10% penalty plus a \$20.00 cost is added as of 5:00 p.m. (*)
May	Treasurer-Tax Collector mails delinquent notices for any unpaid secured taxes.
June 30	End of fiscal year

(*) If a delinquent date falls on a weekend or holiday, the delinquent date is the next business day.

Operating Revenues and Expenses. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses result from transactions directly associated with the fund's principal services.

Compensated Absences:

Administrative personnel vacation, accrual shall be computed from date of hire: a. During the first through second year of compensated and continuous service, employees shall accrue 80 hours of vacation, (10 days). b. During the third through fourth year of compensated and continuous service, employees shall accrue 96 hours of vacation, (12 days). c. During the fifth through ninth year of compensated and continuous service, employees shall accrue 136 hours of vacation, (17 days). d. During the tenth year of compensated and continuous service, and each year thereafter, employees shall accrue 176 hours of vacation, (22 days).

Fire personnel vacation, accrual shall be computed from date of hire: a. During the first through fourth year of compensated and continuous service, employees shall accrue 192 hours of vacation, (8 shifts). b. During the fifth through seventh year of compensated and continuous service, employees shall accrue 240 hours of vacation, (10 shifts). c. During the eighth through tenth year of compensated and continuous service, employees shall accrue 288 hours of vacation, (12 shifts). d. During the eleventh year of compensated and continuous service, and each year thereafter, employees shall accrue 336 hours of vacation, (14 shifts). e. All employees will receive one (1) non-accruing paid personal development day a calendar year.

The balance of accrued unused vacation leave shall be limited to the number of days equal to two times the current year's rate of accrual. Any time an employees accrued unused vacation leave reaches the limit; further accrual will cease until the employee takes vacation time off and brings their accrued unused amount below the limit. The General Manager or designee shall allow the employee to "cash in" excess vacation, if the affected employee can demonstrate that they were unable to take vacation time off.

Sick leave, upon death or retirement, or upon layoff or resignation in good standing after ten (10) years of continuous and compensated service an employee or said employee's estate shall be paid twenty-five (25) percent of any accrued, unused sick leave, the rate shall be thirty-five (35) percent after 15 years and fifty (50) percent after 20 years of service. Valuation shall be on the basis of the hourly equivalent of said employee's monthly salary at the effective date of separation or layoff. The employee shall have the option of using their unused sick leave as a service credit for retirement purposes, but not both.

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
JUNE 30, 2019

Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data. Per Board Policy 3020, an annual budget proposal shall be prepared by the General Manager. Prior to final approval by the Board of Directors, the General Manager will meet with the Budget/Finance Committee for review and input on budget drafts. Notice of the proposed annual budget shall be published in a local newspaper and presented to the public at a Public Hearing for comments prior to adoption by the Board of Directors. The Board of Directors shall approve an annual budget at its regular meeting in June of each year. The approved Budget goes into effect on July 1st.

1 - F. New Accounting Pronouncements

The Governmental Accounting Standards Board (“GASB”) has issued the following standards:

- ❖ GASB Statement No. 87, *Leases*. Effective Date: For reporting periods beginning after December 15, 2019.
- ❖ GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- ❖ GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- ❖ GASB Statement No. 91, *Conduit Debt Obligations*. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- ❖ GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Effective date May 2020, this Statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The requirements of this Statement apply to the financial statements of all state and local governments.

For specific details about the standards, please see www.gasb.org.

NOTE 2 – DEPOSITS AND INVESTMENTS

2 - A. Summary of Cash and Cash Equivalents

	<u>Business-Type Activities</u>	
Cash on hand	\$	400
Deposits in financial institutions		331,636
LAIIF		1,265
Money market		1,100,857
Total Cash and Cash Equivalents	\$	1,434,158

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

2 - B. Cash Deposits and Certificates of Deposit

Custodial Credit Risk. There is a risk that, in the event of a bank failure, the District's deposits may not be returned. The District's deposit policy requires that all deposits are covered by the Federal Depository Insurance Corporation ("FDIC") or are collateralized as required by Statutes of the State. As of June 30, 2019, the carrying amount of the District's bank deposits (including the certificates of deposit) were \$1,080,482, and the respective bank balances totaled \$1,068,099. Of the total bank balance, \$500,000 was insured through the FDIC. The remaining \$568,099 was collateralized with pooled securities held by the financial institutions' trust departments. These securities are held in the name of the financial institution and not that of the District.

NOTE 3 – ACCRUED RECEIVABLES

Receivables at June 30, 2019, were as follows:

	Water	Sewer	Fire	Contract Fire Revenue	Ambulance	Total
Sales	\$ 73,369	\$ 53,294	\$ -	\$ -	\$ -	\$ 126,663
Ambulance collections, net	-	-	-	-	123,804	123,804
GEMT	-	-	-	-	104,939	104,939
Contract fire work/mutual aid	-	-	287,765	1,524,459	-	1,812,224
Taxes	3,644	5,408	17,893	-	-	26,945
Total Accrued Receivables	\$ 77,013	\$ 58,702	\$ 305,658	\$ 1,524,459	\$ 228,743	\$ 2,194,575

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019

	Balance				Balance	
	July 01, 2018		Additions	Deletions	June 30, 2019	
Capital Assets Not Being Depreciated						
Land	\$ 139,295	\$	-	\$	-	\$ 139,295
Construction in progress	-		-		-	-
Total Capital Assets Not Being Depreciated	\$ 139,295	\$	-	\$	-	\$ 139,295
Capital Assets Being Depreciated						
Water systems	\$ 3,010,545	\$	297,011	\$	-	\$ 3,307,556
Sewer systems	6,880,026		69,596		-	6,949,622
Buildings and improvements	1,149,136		-		53,343	1,095,793
Equipment	2,258,015		-		245,847	2,012,168
Total assets being depreciated	13,297,722		366,607		299,190	13,365,139
Less, accumulated depreciation	6,423,936		518,402		-	6,942,338
Total Capital Assets Being Depreciated, Net	\$ 6,873,786	\$	(151,795)	\$	299,190	\$ 6,422,801

NOTE 5 – INTERFUND BALANCES AND ACTIVITY

5 - A. Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2019, are as follows:

Due to Other Funds	Due From Other Funds				
	Sewer	Fire	Contract Fire Revenue	Ambulance	Total
Water	\$ -	\$ -	\$ 362,813		\$ 362,813
Fire	-	-	2,829,168	139,649	2,968,817
Contract Fire Revenue	1,401,195	-	-	-	1,401,195
Ambulance	-	374,970	-	-	374,970
Total Due From Other Funds	\$ 1,401,195	\$ 374,970	\$ 3,191,981	\$ 139,649	\$ 5,107,795

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

Contract Fire owes Sewer for payroll	\$ 1,401,195
Ambulance owes Fire for payroll	374,970
Water owes Contract Fire for negative cash	362,813
Fire owes Contract Fire for negative cash	2,687,330
Fire owes Contract Fire for equipment transfer	141,838
Fire owes Ambulance for equipment transfer	139,649
Total	5,107,795

5 - B. Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2019, consist of the following:

<u>Interfund Transfer Out</u>	<u>Interfund Transfer In</u> <u>Lighting</u>
Water	31,745

The Water Fund made an operating transfer to the Lighting Fund in the amount of \$ 31,745

NOTE 6 – ACCRUED PAYABLES

Payables at June 30, 2019, were as follows:

	<u>Lighting</u>	<u>Water</u>	<u>Sewer</u>	<u>Fire</u>	<u>Contract Fire Revenue</u>	<u>Ambul.</u>	<u>Total</u>
Vendors	\$ 2,075	\$ 13,327	\$ 14,201	\$ 7,518	\$ 924	\$ 2,352	\$ 40,397
CalPERS	-	2,128	2,128	10,429	-	3,696	18,381
Payroll related	-	3,769	3,769	57,282	67,393	-	132,213
Lassen contract emp.	-	-	-	216,000	1,143,000	-	1,359,000
Total Payables	\$ 2,075	\$ 19,224	\$ 20,098	\$ 291,229	\$1,211,317	\$ 6,048	\$1,549,991

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

NOTE 7 – LONG-TERM LIABILITIES

7 - A. Long-Term Liabilities Summary

Long-term liability activity for the year ended June 30, 2019 was as follows:

	Balance		Balance	
	July 01, 2018	Additions	Deletions	June 30, 2019
Compensated absence	\$ 79,663	\$ 14,337	\$ -	\$ 94,000
Net pension liability ("NPL")	1,598,000	-	34,000	1,564,000
Other postemployment benefits	728,000	99,000	-	827,000
Total Long-Term Liabilities	\$ 2,405,663	\$ 113,337	\$ 34,000	\$ 2,485,000

7 - B. Compensated Absences

The unpaid employee vacation for the year ended June 30, 2019 was \$11,000, \$11,000, \$33,000 and \$39,000 for the Water Fund, Sanitation Fund, Fire Fund, and Ambulance Fund, respectively.

7 - C. Net Pension Liabilities ("NPLs")

The District's pension activities between the District and Cal PERS for the year ended June 30, 2019, resulted in net pension obligations and other related balances as follows:

	Cal PERS Risk Pool		
	Safety	Miscellaneous	Total
Net Pension Liability	\$ (868,000)	\$ (696,000)	\$ (1,564,000)
Deferred Outflows of Resources	370,000	228,000	598,000
Deferred Inflows of Resources	(16,000)	(36,000)	(52,000)
Effect on Net Position	\$ (514,000)	\$ (504,000)	\$ (1,018,000)
Pension Expense	\$ 145,000	\$ 150,000	\$ 295,000

For the year ended June 30, 2019, the District's NPLs was \$348,000, \$348,000, \$434,000, and \$434,000 for the Water Fund, Sanitation Fund, Fire Fund, and Ambulance Fund, respectively. See Note 8 for additional information regarding the pension plans and activities.

7 - D. Net Pension Liabilities

For the year ended June 30, 2019, the District's OPEB obligation was \$196,000, \$196,000, \$286,000, and \$149,000 for the Water Fund, Sanitation Fund, Fire Fund, and Ambulance Fund, respectively. See Note 9 for additional information regarding the pension plans and activities.

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

NOTE 8 – DEFINED BENEFIT PENSION

8 - A. General Information about the Pension Plan

Plan Description. The California Public Employees’ Retirement System (“CalPERS” or the System) is a cost-sharing, multiple-employer defined benefit public pension fund. CalPERS provides retirement benefit services for state, school, and public employers. Governed by a 13-member Board of Administration consisting of member-elected, appointed, and ex officio members. Established by legislation in 1931, the System became operational in 1932 to provide retirement to state employees. In 1939, new legislation allowed public agency and classified school employees to join CalPERS for retirement benefits. The benefits for the public agencies are established by contract with the System, in accordance with the provisions of the Public Employees’ Retirement Law. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>.

For accounting purposes only, Public Employees’ Retirement Fund (“PERF”) is comprised of and reported as three separate entities. PERF A is comprised of agent multiple-employer plans, which includes the State of California and most public agencies’ rate plans with more than 100 active members. PERF B is a cost-sharing multiple employer plan of school employers consisting of non-teaching and non-certified employees. PERF C is a cost-sharing multiple-employer plan of public agencies with generally less than 100 active members. The District’s NPL is a part of PERF B

Benefits Provided. The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. The District’s part of the following plans:

Plan	Benefit Formula
Safety Fire Plan	3.0% @ 50
PEPRA Safety Fire Plan	2.7% @ 57
Miscellaneous Plan	2.5% @ 55
Miscellaneous PEPRA Plan	2.0% @ 62

More detailed calculation can be found in Appendix B in Section 2 of the Risk Pool Valuation Reports. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service. All non-state Second Tier members are eligible to receive cost-of-living (COLA) adjustments up to a maximum of 2 percent compounded annually (up to 5 percent maximum as a contract option for retired members of local agencies).

Contributions. The CalPERS Annual Valuation Report for Chester Public Utilities District as of June 30, 2016, reported 2018-19 required the following employer contributions:

Plan	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employee Contribution
Safety Fire Plan	20.556%	\$58,596	9.00%
PEPRA Safety Fire Plan	12.141%	\$94	11.50%
Miscellaneous Plan	10.609%	\$70,059	8.00%
Miscellaneous PEPRA Plan	6.842%	\$457	6.25%

Contributions to the pension plan from the Districts’ safety plans and miscellaneous plan was \$161,797 and \$102,410, respectively, for the year ended June 30, 2019.

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

8 - B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the District reported a safety liability of \$868,000 and miscellaneous liability of \$696,000 for its proportionate shares of the net pension liabilities. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 agencies, actuarially determined. The District's proportion was calculated as follows:

	<u>Jun. 30, 2018</u>	<u>Jun. 30, 2017</u>	<u>Difference</u>
Safety Plan:			
Total Pension Liability Allocation Basis	0.0001106	0.0001057	0.0000049
Fiduciary Net Position Allocation Basis	0.0000971	0.0000901	0.0000070
Deferred Outflows/Inflows of Resources and Pension Expense Allocation Basis	0.0000000	0.0001057	-0.0001057
Miscellaneous Plan:			
Total Pension Liability Allocation Basis	0.0001339	0.0001464	-0.0000125
Fiduciary Net Position Allocation Basis	0.0001194	0.0001338	-0.0000144
Deferred Outflows/Inflows of Resources and Pension Expense Allocation Basis	0.0000000	0.0001464	-0.0001464

For the year ended June 30, 2019, the District recognized total pension expenses of \$295,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows / (Inflows) of Resources		
	<u>Safety</u>	<u>Misc.</u>	<u>Total</u>
Changes of assumptions	\$ 74,000	\$ 60,000	\$ 134,000
Differences between expected and actual experience	18,000	18,000	36,000
Net difference between projected and actual earnings on pension plan	6,000	3,000	9,000
Differences between District contributions and proportionate share of contributions	110,000	44,000	154,000
Changes in proportion	(16,000)	(35,000)	(51,000)
District contributions subsequent to the measurement date	162,000	102,000	264,000
Total	\$ 354,000	\$ 192,000	\$ 546,000

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

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

Year ended June 30:

2020	\$ 470,000
2021	129,000
2022	(41,000)
2023	(12,000)
Total	\$ 546,000

8 - C. Actuarial Assumptions and Discount Rate Information

Actuarial Assumptions. The June 30, 2017 valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate:	7.15%
Inflation rate	2.50%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS membership data for all funds
Post-Retirement Benefit Increase	Contract COLA up to 2.50% until PPPA floor on until Purchasing Power Protection Allowance Floor on Purchasing Power Applies

¹ The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Discount Rate. The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as followed:

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1 – 10 ²	Real Return Years 11+ ³
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	-	(0.92)%

¹ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

² An expected inflation rate of 2.00% used for this period.

³ An expected inflation rate of 2.92% used for this period.

Sensitivity of the District's 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 current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (-100 basis points) or one percentage point higher (+100 basis points) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Safety NPL \$	1,204,000	\$ 868,000	\$ 592,000
Miscellaneous NPL	1,001,000	696,000	442,000
\$	2,205,000	\$ 1,564,000	\$ 1,034,000

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS Comprehensive Annual Financial Report.

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

NOTE 9 – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. Pursuant to the Public Employees' Medical And Hospital Care Act (“PEMHCA”), as set forth in Government Code §22750 – 22948. The plan is a single-employer, defined benefit OPEB plan administered by the District. Government Code §22777 provides that “health benefit plan” means any program or entity that provides, arranges, pays for, or reimburses the cost of health benefits for employees and retirees and their surviving family members with health benefits provided through the California Public Employee’s Pension System (“CalPERS”). **No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.**

Benefits Provided:

Benefit types provided	Medical only
Duration of Benefits	Life of retiree
Required Service	10 years creditable service
Minimum Age	50 for Safety Classic, 55 for Miscellaneous, 57 for PEPRA Safety
District Contribution	With ten years of service 50% of total up to 100% with twenty years of service

Employees Covered by Benefit Terms. At June 30, 2019, the membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefit payments	4
Inactive employees entitled to but not yet receiving benefit payments	1
Active employees	13
Total	18

Total OPEB Liability. The District’s total OPEB liability of \$827,000 was measured in conformity with the requirements in GASB No. 75, paragraphs 225 and 226 for the alternative measurement method, as of June 30, 2019.

Measurement Assumptions and Other Inputs. The total OPEB liability in the June 30, 2019 valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate:	2.10%, based on https://data.bls.gov/timeseries/CUUR0000SA0L1E?output_view=pct_12mths
Discount Rate:	2.79%, https://my.spindices.com/indices/fixed-income/sp-municipal-bond-20-year-high-grade-rate-index
Turnover:	2003 SOA Pension Plan Turnover Study Small (1000 lives or less) Plan Age Table
Mortality:	CalPERS Mortality Rate, Miscellaneous
Benefit Increase:	CalPERS OPEB ASSUMPTION MODEL For Actuarial Valuations and Alternative Measurement Method Analyses Based on Data Measured After August 15, 2012

The CalPERS Miscellaneous assumptions can be downloaded at:
<https://www.calpers.ca.gov/docs/public-agencies-schools-assumption-methods.xlsx>

CHESTER PUBLIC UTILITIES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS, Continued
 JUNE 30, 2019

Changes in the Total OPEB Liability:

Balance at July 01, 2018	\$ 728,000
Changes for the year:	
Service cost	129,000
Benefit payments	(30,000)
Net changes	99,000
Balances at June 30, 2019	\$ 827,000

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate and a health trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rates:

Current Discount Rate		
1% Decrease (1.79%)	(2.79%)	1% Increase (3.79%)
\$ 948,000	\$ 827,000	\$ 732,000

Current Health Trend Rate		
1% Decrease (4.0%)	(5.0%)	1% Increase (6.0%)
\$ 758,000	\$ 827,000	\$ 902,000

OPEB Expense. For the year ended June 30, 2019, the District recognized an OPEB expense of \$139,791.

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REQUIRED SUPPLEMENTARY INFORMATION

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SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2019	2018	2017	2016	2015
Safety Plan:					
District's proportion of the net pension liability (asset)	0.01%	0.01%	0.02%	0.02%	0.02%
District's proportionate share of the net pension liability (asset)	\$ 868,000	\$ 868,000	\$ 783,000	\$ 683,000	\$ 624,000
District's covered payroll	\$ 510,074	\$ 482,220	\$ 482,310	\$ 482,310	\$ 309,640
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	170%	180%	162%	142%	202%
Plan fiduciary net position as a percentage of the total pension liability	73%	72%	73%	77%	79%
Miscellaneous Plan:					
District's proportion of the net pension liability (asset)	0.02%	0.02%	0.02%	0.02%	0.02%
District's proportionate share of the net pension liability (asset)	\$ 696,000	\$ 729,000	\$ 667,000	\$ 573,000	\$ 482,000
District's covered payroll	\$ 427,255	\$ 328,473	\$ 279,023	\$ 279,023	\$ 214,425
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	163%	222%	239%	205%	225%
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	76%	80%	81%

The amounts presented for each fiscal year were determined as of June 30 of the prior fiscal year

CHESTER PUBLIC UTILITIES DISTRICT

SCHEDULE OF CONTRIBUTIONS

	2019	2018	2017	2016	2015
Saftey Plan:					
Contractually required contribution	\$ 161,797	\$ 191,290	\$ 138,233	\$ 101,729	\$ 59,979
Contributions in relation to the contractually required contribution	(161,797)	(191,290)	(123,164)	(123,589)	(112,382)
Contribution deficiency (excess)	\$ -	\$ -	\$ 15,069	\$ (21,860)	\$ (52,403)
District's covered payroll	\$ 566,363	\$ 510,074	\$ 482,220	\$ 482,310	\$ 309,640
Contributions as a percentage of covered payroll	29%	38%	29%	21%	19%
Miscellaneous Plan:					
Contractually required contribution	\$ 102,410	\$ 123,519	\$ 90,195	\$ 67,847	\$ 58,978
Contributions in relation to the contractually required contribution	(102,410)	(123,519)	(91,281)	(66,404)	(87,918)
Contribution deficiency (excess)	\$ -	\$ -	\$ (1,086)	\$ 1,443	\$ (28,940)
District's covered payroll	\$ 339,849	\$ 427,255	\$ 328,473	\$ 279,023	\$ 214,425
Contributions as a percentage of covered payroll	30%	29%	27%	24%	28%

CHESTER PUBLIC UTILITIES DISTRICT

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

	<u>2019</u>	<u>2018</u>
Changes for the year:		
Service cost	\$ 129,000	\$ 188,000
Benefit payments	(30,000)	(30,000)
Net Changes in Total OPEB Liability	99,000	158,000
Total OPEB Liability - Beginning	728,000	570,000
Total OPEB Liability - Ending	\$ 827,000	\$ 728,000
Covered Payroll	\$ 906,000	\$ 937,000
Total OPEB liability as a percentage of covered payroll	91%	78%

District Has No Assets Accumulated in a Trust to Pay Related Benefits

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OTHER INDEPENDENT AUDITOR'S REPORT

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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*

The Board of Trustees
Chester Public Utilities District
Chester

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 each major fund of the Chester Public Utilities District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Chester Public Utilities District's basic financial statements, and have issued our report thereon dated June 23, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Chester Public Utilities 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 Chester Public Utilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Chester Public Utilities 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.

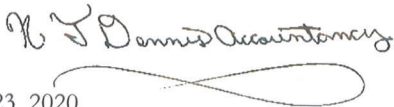
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Chester Public Utilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



June 23, 2020

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ACCOUNTANCY