



Hi-Desert Water District
Yucca Valley, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019



Our Mission Statement

"To provide a safe and reliable water supply and Wastewater Reclamation System for the customers of the Hi-Desert Water District in a safe, efficient and financially responsible manner"

Hi-Desert Water District Board of Directors List

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Roger Mayes	President	Elected	12/18 - 12/22
Sheldon Hough	Vice President	Elected	12/18 - 12/22
Bob Stadum	Director	Elected	12/16 - 12/20
Jim Byerrum	Director	Appointed	04/20 - 12/22
Scot McKone	Director	Appointed	09/20 - 12/24

**Hi-Desert Water District
Ed Muzik, General Manager
55439 29 Palms Highway
Yucca Valley, California 92284-2503
(760) 365-8333 – www.hdwd.com**



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2020 and 2019

HI-DESERT WATER DISTRICT

55439 29 Palms Highway
Yucca Valley, California 92284-2503

Prepared by:

Jonathan Abadesco, CPA, Chief Financial Officer

Tanya Gruwell, Controller

**Hi-Desert Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019**

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Introductory Section



November 18, 2020

Board of Directors
Hi-Desert Water District

Introduction

It is our pleasure to submit Hi-Desert Water District's Annual Financial Report (the "Report") for the fiscal year ending June 30, 2020. District staff has prepared this report following guidelines set forth by the Governmental Accounting Standards Board. The District is responsible for the accuracy of the data included within this Report, as well as the completeness and fairness of its presentation and inclusion of all necessary disclosures. This Report is designed to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires District management to provide a section within this Report that includes a narrative introduction with an overview and analysis referred to as the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditors' Report.

District Structure and Leadership

The Hi-Desert Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1962 and is governed by a five-member Board of Directors elected at-large from within the District's service area. The Board of Directors convenes for regularly scheduled meetings on the first and third Wednesday of each month. These meetings are publicly noticed, and citizens are encouraged to attend. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. As of the fiscal year ending June 30, 2020, the District employed forty-four (44) regular full-time employees who are organized into six (6) departments.

The District provides water service to 10,759 connections within its fifty-seven (57) square mile service area located in the eastern desert area of San Bernardino County which encompasses the Town of Yucca Valley in its entirety and portions of unincorporated areas of San Bernardino County, California.

District Services

Residential customers represent approximately 91% of the District's customer base and consume approximately 78% of the water produced annually by the District. The District currently has a total of 12 groundwater wells with a maximum production capacity of 6,600 gallons per minute and over 300 miles of water distribution and transmission pipelines. In 2020 and 2019, the District purchased 1,141 and 2,942 acre-feet of State Water Project water respectively, through Mojave Water Agency, the District's State Water Project wholesaler.

Economic Condition and Outlook

The District offices are located in the Town of Yucca Valley in San Bernardino County (the “County”). Economic conditions within the County continue to improve, however at a rate that is somewhat slower than its neighboring Counties within Southern California. According to the County’s 2019 Economic Indicators Report, the County’s cost of living is 28% higher than the U.S. average with a median household annual income that has increased 16% from the 2017 figures to \$63,857 in 2018. This is slightly above the national median income of \$61,937. Housing indicators are showing signs of recovery from the decrease in economic activity over the past few years in San Bernardino and Riverside counties (Inland Empire). The minimum qualifying income needed to purchase a median-priced entry-level home costing \$254,960 was approximately \$41,300 during the first quarter of 2019. Fewer than three-quarters (67%) of households in San Bernardino County could afford an entry-level home, which is down from 68% in 2018, but still remains substantially down from 81% in 2010. San Bernardino County’s homeownership rate is the highest in Southern California at 61% in 2018 and is down from 64% in 2009. Seniors are found more likely to be homeowners (77%) within the County than non-seniors (56%). San Bernardino County’s homeownership rate is above the California rate of 55% and below the nationwide homeownership rate of 64%.

Unemployment rates ranged from a low of 5.6% in 2007 to a high of 13.5% in 2010. These rates have declined since 2010 with an unemployment rate of 3.5% as of October 2019. While the local economy continues to improve, visitor spending totaled \$5.3 billion within the County in 2018 (\$4.9 billion within the County in 2017), the highest level in 15 years which had a positive impact on jobs within the County. Yucca Valley, being the hub of our local economy within the Morongo Basin, recognizes some of this visitor spending through tourist attractions such as the Joshua Tree National Park, which attracts over 3 million visitors per year. It is estimated that as much as 50% of Yucca Valley’s sales tax revenue, is generated by visitors.

About 14% of California, concentrated along the Southern Coast, remains abnormally dry. According to californiadrought.org, approximately 30% is experiencing moderate to severe drought conditions, and 56% of the State is identified as drought free. Since the beginning of the water year on October 1, 2016, cumulative precipitation in California’s three key hydrologic regions has been far above the long-term average. California’s snowpack conditions remain excellent; total snowpack from the electronic reading was about 50% of average as of April 2020.

Reservoir levels throughout the State vary, with Lake Shasta at 78% of its historical average, and with Lake Oroville and Folsom Lake each both at 71% of their historical average. San Luis Reservoir saw a 1% decrease from 88% in mid-October 2019 to 87% in mid-October 2020. With the State’s current storage water levels at 88% of the historical average as of October 2020, Mojave Water Agency will be able to meet all the District’s annual water needs with minimal annual State Water Project allocations from the Department of Water Resources. For calendar year, the District will have the opportunity to bank up to an additional 1,000 acre-feet of water which is more than its typical annual request of 3,200 acre-feet for the year.

Urban water conservation remained strong at 25.1% in February 2017 relative to the 2013 water production of the same month. Water use reductions likely resulted from high levels of precipitation and less water demand for outdoor irrigation, which makes up a significant portion of overall residential water use. The cumulative statewide savings from June 2015 through February 2017 was 22.5%, representing about 2.6 million acre-feet of water conserved. This amount is enough to supply more than 13 million Californians for a year. For years, our District has been an example in water conservation, with one of the lowest gallons per capita per day (gpcd) rates in the State at an average of less than 100 gpcd. The District continues to improve its customers' water conservation through public education and conservation incentives.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "To provide a safe, reliable water supply and wastewater reclamation system for the customers of the Hi-Desert Water District in an efficient and financially responsible manner".

The strategic goals adopted by the Board of Directors are:

1. Wastewater Collection and Treatment for Groundwater Protection;
2. Water Resource Management;
3. Emergency and Disaster Preparedness;
4. Public Information and Communication;
5. Infrastructure Development/Maintenance;
6. Financial Management and Transparency;
7. Information Systems;
8. Human Resource Management; and
9. Administrative Management.

All programs and operations of the District are developed and performed to provide the highest level of service to its customers. This is summarized in its motto, "Hi-Desert Water District—Serving You Today, Planning for Tomorrow".

Accomplishments

To assist the Board of Directors in meeting its strategic mission for our District, staff completed several initiatives during the 2019/20 Fiscal Year. The following is a list of accomplishments completed by District staff for both the water and wastewater enterprises:

Water Enterprise

1. Completed construction of 11,130 linear feet of water transmission main, which included completion of three bores;
2. Continued replacing existing meters and service lines as part of the District's Capital Replacement Program with automatic meter reading (AMR) technology to enhance performance and assist with conservation measures;
3. Continued Tank Maintenance Program which includes inspection, wash out, clean out, touch up or recoat interior and exterior surfaces on reservoirs as needed;
4. Continued conservation efforts through public outreach and enforcement of the District's water use restrictions to maintain the District's contributions toward statewide water use reductions and protection of its future water supplies;

5. Installed a generator at pneumatic station for section 23 and added landscaping;
6. Imported 1,141AF of supplemental water to recharge and build reserves in the Warren Valley Groundwater Basin;
7. Continued to participate as a member of the Mojave River Basin's Integrated Regional Water Management Plan Technical Advisory Committee;
8. Continue to update the District's Emergency Response Plan (ERP). Started the process of converting to electronic format; and
9. Updated our Computer Maintenance Management System (CMMS) for tracking within the following departments: Construction Maintenance, Production, Field Service, Customer Service, and Wastewater.

Wastewater Enterprise

1. Completed construction of Phase I, Package D (Package D) of the wastewater collection system, which consists of approximately 29 miles of pipeline, appurtenances, pavement restoration and reconstruction. Reached substantial completion for Package D on March 2020. Package D reached final completion in September 2020;
2. Reached final completion of Phase I, Package B2 (Barron Pump Station) in May 2020;
3. Reached substantial completion of Phase I, Package B1 (Paxton Pump Station) in February 2020;
4. Reached substantial completion of Phase I, Package B3 (Kickapoo Pump Station) on October 2020;
5. Reached substantial completion of the Wastewater Treatment Reclamation Facility (Facility) on November 2019. The facility is designed to treat one million gallons per day of waste. The Facility reached final completion in September 2020. The Facility began receiving domestic effluent in Q4 2019, and began discharging clean water into the Facility's three (3) percolation ponds starting Q1 2020;
6. Worked with the District's environmental consultant to prepare updates to the District's Mitigation and Monitoring Reporting Program for construction as outlined within the Project's California Environmental Quality Act (CEQA). The District's Board of Directors approved and adopted the Mitigated Negative Declaration pursuant to the CEQA requirements for the upcoming Phases II and III Sewer Collection System Project;
7. Negotiated the Wastewater Treatment and Reclamation Project On-Lot Improvements Expanded Use Loan agreement (EUL agreement) with the California State Water Resources Control Board. The EUL agreement was approved on March 2019;
8. Private sewer connections started on November 4, 2019, where the District began assisting property owners with applying for the Expanded Use Loan; and
9. Completed the Initial Design of the Phase II and III collection system.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, institutional savings, and checking accounts.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter (readiness-to-serve) charge.

Water Conservation Programs

The District has implemented conservation management practices since the early 1990's. In 1991, the District became a signatory to the California Department of Water Resources Urban Water Management Plan that agreed to develop and implement comprehensive conservation practices or "Best Management Practices." District staff participates in a number of community events and distributes materials to encourage water conservation. In addition to a tiered rate structure, which encourages conservation, the District offers the following conservation programs:

- Residential Water Audits
- Water Awareness Program

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

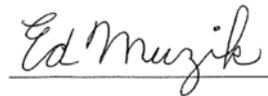
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019. This was the twelfth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Hi-Desert Water District's fiscal policies.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ed Muzik". The signature is written in black ink and is positioned above a thin horizontal line.

Ed Muzik
General Manager
Hi-Desert Water District

Board of Directors

A five-member Board of Directors are elected by the Yucca Valley area to set policy and govern the District. Currently the Board of Directors are:



**Roger Mayes
(President)**



**Sheldon Hough
(Vice-President)**



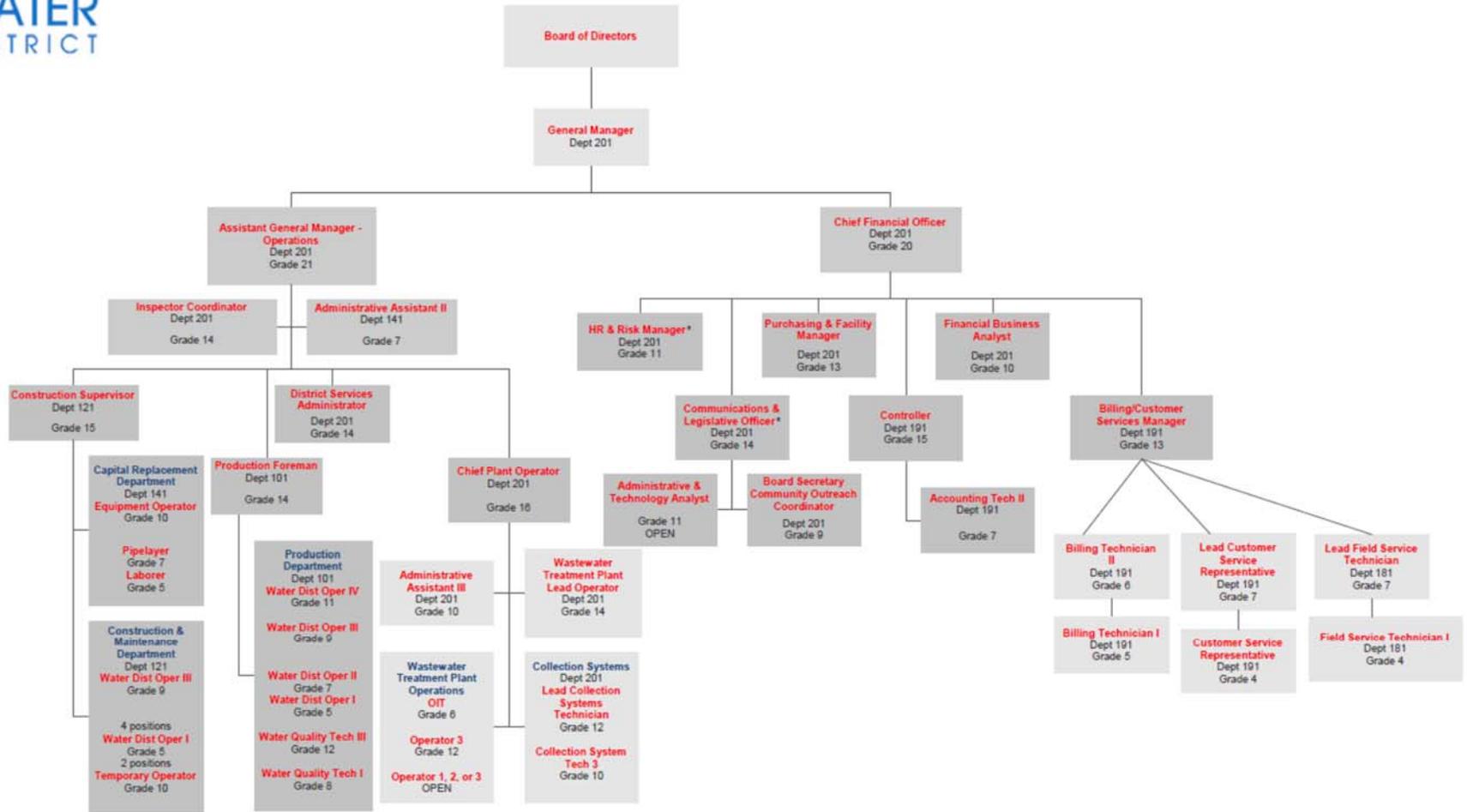
**Scot McKone
(Director)**



**Bob Stadum
(Director)**



**Jim Byerrum
(Director)**



* HR & Risk Manager and Communications & Legislative Officer temporarily report to the Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Hi-Desert Water District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO



Financial Section



Fedak & Brown LLP
Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Hi-Desert Water District
Yucca Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hi-Desert Water District (District) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the 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 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 business-type activities of the Hi-Desert Water District, as of June 30, 2020 and 2019, and the respective changes in net position and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

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 13 through 19 and the required supplementary information on pages 60 through 62 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 9 and the statistical section on pages 67 through 80 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information of combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2020, on our consideration of the 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 the District's internal control over financial reporting and compliance. This report can be found on pages 81 and 82.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 18, 2020



Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Hi-Desert Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 15.67% or \$10,344,060 to \$76,355,382 from continuing operations. In fiscal year 2019, the District's net position increased 30.68% or \$15,497,606 to \$66,011,322 from continuing operations.
- The District's total revenues decreased 15.79% or \$4,295,594 to \$22,915,353 primarily due to a \$5,407,206 decrease in grant revenues. In fiscal year 2019, the District's total revenues increased 58.86% or \$10,081,642 to \$27,210,947.
- The District's capital contribution, component of total revenues, decreased 48.65% or \$5,363,792 to \$5,661,629. In fiscal year 2019, the District's capital contribution, component of total revenues, increased 178.70% or \$7,069,412 to \$11,025,421.
- The District's total expenses increased 7.32% or \$857,952 to \$12,571,293. In fiscal year 2019, the District's total expenses decreased 13.04% or \$1,756,646 to \$11,713,341.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and the net change in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in it. One can think of the District's net position – the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the District's financial health or financial position.

Over time, *increases* or *decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation (such as changes in Federal and State water quality standards).

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 25 through 59.

Statements of Net Position

	Condensed Statements of Net Position				
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Assets:					
Current assets	\$ 24,190,922	35,639,018	(11,448,096)	23,137,383	12,501,635
Non-current assets	530,162	-	530,162	-	-
Capital assets, net	199,939,901	168,948,593	30,991,308	101,615,918	67,332,675
Total assets	<u>224,660,985</u>	<u>204,587,611</u>	<u>20,073,374</u>	<u>124,753,301</u>	<u>79,834,310</u>
Deferred outflows of resources	<u>2,375,973</u>	<u>1,603,966</u>	<u>772,007</u>	<u>1,784,611</u>	<u>(180,645)</u>
Liabilities:					
Current liabilities	5,064,611	20,315,173	(15,250,562)	12,518,027	7,797,146
Non-current liabilities	145,369,469	119,722,111	25,647,358	63,423,286	56,298,825
Total liabilities	<u>150,434,080</u>	<u>140,037,284</u>	<u>10,396,796</u>	<u>75,941,313</u>	<u>64,095,971</u>
Deferred inflows of resources	<u>247,496</u>	<u>142,971</u>	<u>104,525</u>	<u>82,883</u>	<u>60,088</u>
Net position:					
Net investment in capital assets	65,480,889	58,878,373	6,602,516	47,787,711	11,090,662
Restricted	12,526,074	6,579,985	5,946,089	1,987,520	4,592,465
Unrestricted	<u>(1,651,581)</u>	<u>552,964</u>	<u>(2,204,545)</u>	<u>738,485</u>	<u>(185,521)</u>
Total net position	<u>\$ 76,355,382</u>	<u>66,011,322</u>	<u>10,344,060</u>	<u>50,513,716</u>	<u>15,497,606</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$76,355,382 and \$66,011,322 as of June 30, 2020 and 2019, respectively.

The District's net position increased 15.67% or \$10,344,060 compared to prior year. In fiscal year 2019, the District the net position increased 30.68% or \$15,497,606 compared to prior year. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Net Position, continued

By far the largest portion of the District's net position (85.76% and 89.2% as of June 30, 2020 and 2019, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2020, the District showed a deficit balance in its unrestricted net position of \$1,651,581; and at the end of fiscal year 2019, the District showed a positive balance in its unrestricted net position of \$552,964, which may be utilized in future years.

Statements of Revenues, Expenses, and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Operations:					
Operating revenues	\$ 8,028,319	7,813,285	215,034	7,968,186	(154,901)
Operating expenses	10,524,979	9,229,215	1,295,764	10,922,202	(1,692,987)
Operating loss before depreciation	<u>(2,496,660)</u>	<u>(1,415,930)</u>	<u>(1,080,730)</u>	<u>(2,954,016)</u>	<u>1,538,086</u>
Depreciation	(1,916,159)	(1,871,168)	(44,991)	(1,912,447)	41,279
Operating loss	<u>(4,412,819)</u>	<u>(3,287,098)</u>	<u>(1,125,721)</u>	<u>(4,866,463)</u>	<u>1,579,365</u>
Non-operating revenues(expenses):					
Property taxes	1,703,128	1,634,342	68,786	1,538,716	95,626
Measure Z sales tax revenue	2,040,545	2,028,361	12,184	1,771,922	256,439
Assessment revenue	3,877,314	2,673,129	1,204,185	4,879	2,668,250
Interest earnings	131,169	151,394	(20,225)	104,782	46,612
Capital surcharge	1,224,922	1,065,563	159,359	1,052,307	13,256
Morongo Basin Project surcharge	51,052	557,752	(506,700)	550,632	7,120
Lease payment – Morongo Basin Project	(8,960)	(481,070)	472,110	(487,102)	6,032
Interest expense – long-term debt	(107,564)	(118,103)	10,539	(134,605)	16,502
Other non-operating revenues	197,275	261,700	(64,425)	181,672	80,028
Other non-operating expenses	(13,631)	(13,785)	154	(13,631)	(154)
Total non-operating revenues, net	<u>9,095,250</u>	<u>7,759,283</u>	<u>1,335,967</u>	<u>4,569,572</u>	<u>3,189,711</u>
Net income(loss) before capital contributions	4,682,431	4,472,185	210,246	(296,891)	4,769,076
Capital contributions	<u>5,661,629</u>	<u>11,025,421</u>	<u>(5,363,792)</u>	<u>3,956,009</u>	<u>7,069,412</u>
Changes in net position	<u>10,344,060</u>	<u>15,497,606</u>	<u>(5,153,546)</u>	<u>3,659,118</u>	<u>11,838,488</u>
Net position, beginning of year, as previously stated	66,011,322	50,513,716	15,497,606	50,007,041	506,675
Prior period adjustment	-	-	-	(3,152,443)	3,152,443
Net position, beginning of year, as restated	<u>66,011,322</u>	<u>50,513,716</u>	<u>15,497,606</u>	<u>46,854,598</u>	<u>3,659,118</u>
Net position, end of year	<u>\$ 76,355,382</u>	<u>66,011,322</u>	<u>10,344,060</u>	<u>50,513,716</u>	<u>15,497,606</u>

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses, and Changes in Net Position, continued

The statements of revenues, expenses, and changes in net position show how the District's net position changed during the fiscal years. During the fiscal year ended June 30, 2020, the District's net position increased 15.67% or \$10,344,060 to \$76,355,382, from continuing operations. During the fiscal year ended June 30, 2019, the District's net position increased 30.68% or \$15,497,606 to \$66,011,322 from continuing operations.

Total Revenues

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 6,058,908	5,707,152	351,756	5,882,939	(175,787)
Readiness-to-serve fees	1,725,462	1,800,183	(74,721)	1,774,138	26,045
Other charges	243,949	305,950	(62,001)	311,109	(5,159)
Total operating revenues	<u>8,028,319</u>	<u>7,813,285</u>	<u>215,034</u>	<u>7,968,186</u>	<u>(154,901)</u>
Non-operating revenues:					
Property taxes	1,703,128	1,634,342	68,786	1,538,716	95,626
Measure Z sales tax revenue	2,040,545	2,028,361	12,184	1,771,922	256,439
Assessment revenue	3,877,314	2,673,129	1,204,185	4,879	2,668,250
Interest earnings	131,169	151,394	(20,225)	104,782	46,612
Capital surcharge	1,224,922	1,065,563	159,359	1,052,307	13,256
Morongo Basin Project surcharge	51,052	557,752	(506,700)	550,632	7,120
Other non-operating revenues	197,275	261,700	(64,425)	181,672	80,028
Total non-operating revenues	<u>9,225,405</u>	<u>8,372,241</u>	<u>853,164</u>	<u>5,204,910</u>	<u>3,167,331</u>
Capital contributions:					
Grant revenues	5,249,970	10,657,176	(5,407,206)	3,610,225	7,046,951
Meter sales and installations	411,659	368,245	43,414	345,784	22,461
Total capital contributions	<u>5,661,629</u>	<u>11,025,421</u>	<u>(5,363,792)</u>	<u>3,956,009</u>	<u>7,069,412</u>
Total revenues	<u>\$ 22,915,353</u>	<u>27,210,947</u>	<u>(4,295,594)</u>	<u>17,129,105</u>	<u>10,081,842</u>

In fiscal year 2020, the District's total revenues decreased by \$4,295,594. In fiscal year 2019, the District's total revenues increased by \$10,081,842.

The District's operating revenues increased by \$215,034, primarily due to an increase in water sales and services of \$351,756; which was offset by decreases in readiness-to-serve fees of \$74,721 and other charges of \$62,001. In fiscal year 2019, the District's operating revenues decreased by \$154,901, primarily due to a decrease in water sales and services of \$175,787; which was offset by an increase in readiness-to-serve fees of \$26,045.

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues, including the Measure Z sales tax, are pledged to pay down the District's debt and for the District's capital improvement program. The District's non-operating revenues increased by \$853,164, primarily due to an increase in Assessment revenues of \$1,204,185; which was offset by a decrease in Morongo Basin Project surcharge of \$506,700. In fiscal year 2019, the District's non-operating revenues increased by \$3,167,331, primarily due to an increase in Assessment revenues of \$2,668,250.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses, and Changes in Net Position, continued

Total Revenues, continued

The District received \$5,661,629 in capital contributions which is comprised primarily of grant revenues for wastewater operations and \$411,659 from developers for meter purchases and installation fees. In fiscal year 2019, the District received \$11,025,421 in capital contributions which is comprised primarily of grant revenues for wastewater operations and \$368,245 from developers for meter purchases and installation fees.

Total Expenses

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Operating expenses including depreciation expense:					
Source of supply	\$ 721,112	1,794,010	(1,072,898)	2,752,253	(958,243)
Pumping and water treatment	2,407,314	1,756,121	651,193	2,121,494	(365,373)
Transmission and distribution	1,940,831	1,687,110	253,721	1,733,198	(46,088)
Customer accounts	259,413	371,078	(111,665)	561,103	(190,025)
Wastewater operations	1,026,977	158,690	868,287	49,574	109,116
General and administrative	4,169,332	3,462,206	707,126	3,704,580	(242,374)
Depreciation	1,916,159	1,871,168	44,991	1,912,447	(41,279)
Total operating expenses including depreciation expense	<u>12,441,138</u>	<u>11,100,383</u>	<u>1,340,755</u>	<u>12,834,649</u>	<u>(1,734,266)</u>
Non-operating expenses:					
Lease payment – Morongo Basin Project	8,960	481,070	(472,110)	487,102	(6,032)
Interest expense – long-term debt	107,564	118,103	(10,539)	134,605	(16,502)
Other non-operating expenses	13,631	13,785	(154)	13,631	154
Total non-operating expenses	<u>130,155</u>	<u>612,958</u>	<u>(482,803)</u>	<u>635,338</u>	<u>(22,380)</u>
Total expenses	<u>\$ 12,571,293</u>	<u>11,713,341</u>	<u>857,952</u>	<u>13,469,987</u>	<u>(1,756,646)</u>

The District's total expenses increased by \$857,952. In fiscal year 2019, the District's total expenses decreased by \$1,756,646.

The District's operating expenses increased by \$1,340,755, primarily due to increases in wastewater operations of \$868,287, general and administrative of \$707,126, pumping and water treatment of \$651,193, and transmission and distribution of \$253,721; which were offset by a decrease in source of supply of \$1,072,898. In fiscal year 2019, the District's operating expenses decreased by \$1,734,266, primarily due to decreases in source of supply of \$958,243, pumping and water treatment of \$365,373, and general and administrative expenses of \$242,374.

The District's non-operating expenses decreased by \$482,803, primarily due to decreases in lease payment related to the Morongo Basin Project of \$472,110 and interest expense of \$10,539. In fiscal 2019, the District's non-operating expenses decreased by \$22,380, primarily due to decreases in interest expense of \$16,502 and lease payment related to the Morongo Basin Project of \$6,032.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Capital Asset Administration

Change in capital assets in 2020, was as follows:

	<u>Balance 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2020</u>
Capital assets:				
Non-depreciable assets	\$ 133,112,924	30,613,354	(783,775)	162,942,503
Depreciable assets	72,691,081	3,077,888	-	75,768,969
Accumulated depreciation	<u>(36,855,412)</u>	<u>(1,916,159)</u>	<u>-</u>	<u>(38,771,571)</u>
Total capital assets, net	<u>\$ 168,948,593</u>	<u>31,775,083</u>	<u>(783,775)</u>	<u>199,939,901</u>

Change in capital assets in 2019, was as follows:

	<u>Balance 2018</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2019</u>
Capital assets:				
Non-depreciable assets	\$ 68,126,995	67,154,446	(2,168,517)	133,112,924
Depreciable assets	68,473,167	4,217,914	-	72,691,081
Accumulated depreciation	<u>(34,984,244)</u>	<u>(1,871,168)</u>	<u>-</u>	<u>(36,855,412)</u>
Total capital assets, net	<u>\$ 101,615,918</u>	<u>69,501,192</u>	<u>(2,168,517)</u>	<u>168,948,593</u>

At the end of fiscal years 2020 and 2019, the District's investment in capital assets (net of accumulated depreciation) amounted to \$199,939,901 and \$168,948,593, respectively. This investment in capital assets includes land, easements, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles, construction-in-process, and etc. The capital assets of the District are more fully analyzed in Note 6 to the basic financial statements.

Debt Administration

Change in long-term debt amounts for 2020, was as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Principal Payments Amortization</u>	<u>Balance 2020</u>
Bond payable	\$ 2,925,000	-	(450,000)	2,475,000
Bond premium	<u>272,739</u>	<u>-</u>	<u>(45,456)</u>	<u>227,283</u>
Total bond payable	3,197,739	-	(495,456)	2,702,283
Loan payable	<u>106,872,481</u>	<u>24,884,248</u>	<u>-</u>	<u>131,756,729</u>
Total long-term debt	<u>\$ 110,070,220</u>	<u>24,884,248</u>	<u>(495,456)</u>	<u>134,459,012</u>

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Debt Administration, continued

Change in long-term debt amounts for 2019, was as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>Amortization</u>	<u>Balance</u> <u>2019</u>
Bond payable	\$ 3,360,000	-	(435,000)	2,925,000
Bond premium	318,196	-	(45,457)	272,739
Total bond payable	3,678,196	-	(480,457)	3,197,739
Loan payable	50,150,011	56,722,470	-	106,872,481
Total long-term debt	\$ <u>53,828,207</u>	<u>56,722,470</u>	<u>(480,457)</u>	<u>110,070,220</u>

Long-term debt increased by \$24,388,792, primarily due to additions to long-term debt of \$24,884,248, which was offset by a \$495,456 decrease due to principal payments. In 2019, long-term debt increased by \$56,242,013, primarily due to additions to long-term debt of \$56,722,470, which was offset by a \$480,457 decrease due to principal payments. See further detailed information in Note 8.

Conditions Affecting Current Financial Position

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the District and the duration cannot be estimated at this time.

Management is unaware of any other conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future periods.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances; and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at Hi-Desert Water District, 55439 29 Palms Highway, Yucca Valley, California 92284-2503 or (760) 365-8333.

Basic Financial Statements

Hi-Desert Water District
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,779,138	9,430,721
Cash and cash equivalents - restricted (note 2)	12,526,074	6,579,985
Accounts receivable – sales and services, net (note 3)	1,458,374	1,477,762
Accounts receivable – other	2,422	8,272
Property taxes receivable	599,170	598,575
Federal grants receivable (note 4)	33,605	4,034,434
State and local grants receivable (note 4)	32,172	9,136
State funding receivable (note 4)	2,397,042	11,651,179
Accrued interest receivable	13,228	22,634
Prepaid lease payment (note 13)	720,409	720,409
Prepaid expense and other deposits	118,334	119,105
Materials and supplies inventory	510,954	986,806
	24,190,922	35,639,018
Non-current assets:		
Notes receivable (note 5)	530,162	-
Non-depreciable capital assets (note 6)	162,942,503	133,112,924
Depreciable capital assets, net (note 6)	36,997,398	35,835,669
	200,470,063	168,948,593
	224,660,985	204,587,611
Deferred outflows of resources:		
Deferred OPEB outflows (note 9)	891,916	179,938
Deferred pension outflows (note 10)	1,484,057	1,424,028
	2,375,973	1,603,966

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Net Position, continued
June 30, 2020 and 2019

	2020	2019
Current liabilities:		
Accounts payable and accrued expenses	\$ 266,696	467,119
Accounts payable - construction	3,001,545	18,661,487
Accrued payroll	203,600	163,337
Accrued interest on long-term debt	17,458	18,958
Deposits	469,960	462,064
Unearned revenues (note 5)	545,288	-
Other liabilities	4,343	4,343
Long-term liabilities – due within one year:		
Compensated absences (note 7)	95,721	87,865
Bonds payable (note 8)	460,000	450,000
Total current liabilities	5,064,611	20,315,173
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	287,164	263,595
Bonds payable, net (note 8)	2,242,283	2,747,739
Loans payable (note 8)	131,756,729	106,872,481
Net OPEB liability (note 9)	5,318,570	4,398,060
Net pension liability (note 10)	5,764,723	5,440,236
Total non-current liabilities	145,369,469	119,722,111
Total liabilities	150,434,080	140,037,284
Deferred inflows of resources:		
Deferred OPEB inflows (note 9)	35,938	-
Deferred pension inflows (note 10)	211,558	142,971
Total deferred inflows of resources	247,496	142,971
Net position: (note 11)		
Net investment in capital assets	65,480,889	58,878,373
Restricted	12,526,074	6,579,985
Unrestricted	(1,651,581)	552,964
Total net position	\$ 76,355,382	66,011,322

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Water consumption sales	\$ 6,058,908	5,707,152
Readiness-to-serve fees	1,725,462	1,800,183
Other charges	243,949	305,950
Total operating revenues	8,028,319	7,813,285
Operating expenses:		
Source of supply	721,112	1,794,010
Pumping and water treatment	2,407,314	1,756,121
Transmission and distribution	1,940,831	1,687,110
Customer accounts	259,413	371,078
Wastewater operations	1,026,977	158,690
General and administrative	4,169,332	3,462,206
Total operating expenses	10,524,979	9,229,215
Operating loss before depreciation	(2,496,660)	(1,415,930)
Depreciation	(1,916,159)	(1,871,168)
Operating loss	(4,412,819)	(3,287,098)
Non-operating revenues(expenses):		
Property taxes	1,703,128	1,634,342
Measure Z sales tax revenue (note 14)	2,040,545	2,028,361
Assessment revenue (note 14)	3,877,314	2,673,129
Interest earnings	131,169	151,394
Capital surcharge	1,224,922	1,065,563
Morongo Basin Project surcharge (note 13)	51,052	557,752
Lease payment – Morongo Basin Project	(8,960)	(481,070)
Interest expense – long-term debt	(107,564)	(118,103)
Other non-operating revenues	197,275	261,700
Other non-operating expenses	(13,631)	(13,785)
Total non-operating revenues, net	9,095,250	7,759,283
Net income before capital contributions	4,682,431	4,472,185
Capital contributions:		
Grant revenue	5,249,970	10,657,176
Meter sales and installations	411,659	368,245
Total capital contributions	5,661,629	11,025,421
Changes in net position	10,344,060	15,497,606
Net position, beginning of year	66,011,322	50,513,716
Net position, end of year	\$ 76,355,382	66,011,322

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	\$ 8,061,453	7,826,848
Cash paid to employees for salaries and wages	(4,230,843)	(3,767,996)
Cash paid to vendors and suppliers	(5,368,733)	(5,626,660)
Other receipts	183,644	247,915
Net cash used in operating activities	(1,354,479)	(1,319,893)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,702,533	1,538,446
Proceeds from Measure Z sales taxes	2,040,545	2,028,361
Proceeds from assessment revenue	3,877,314	2,673,129
Net cash provided by non-capital financing activities	7,620,392	6,239,936
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(48,567,409)	(61,433,301)
Proceeds from capital grants	18,497,026	4,916,669
Proceeds from state revolving fund	24,884,248	56,722,470
Proceeds from meter sales and installations	411,659	368,245
Principal paid on long-term debt	(495,456)	(480,457)
Interest paid on long-term debt	(109,064)	(121,003)
Proceeds from CRP surcharge	1,224,922	1,065,563
Proceeds from Morongo Basin Project surcharge	51,052	557,752
Lease payment – Morongo Basin Project	(8,960)	(481,365)
Net cash (used in)provided by capital and related financing activities	(4,111,982)	1,114,573
Cash flows from investing activities:		
Interest earnings	140,575	149,885
Net cash provided by investing activities	140,575	149,885
Net increase in cash and cash equivalents	2,294,506	6,184,501
Cash and cash equivalents – beginning of year	16,010,706	9,826,205
Cash and cash equivalents – end of year	\$ 18,305,212	16,010,706
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	\$ 5,779,138	9,430,721
Cash and cash equivalents - restricted	12,526,074	6,579,985
Total cash and cash equivalents	\$ 18,305,212	16,010,706

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,412,819)	(3,287,098)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,916,159	1,871,168
Other receipts	183,644	247,915
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows:		
Accounts receivable – water sales and services, net	19,388	14,181
Accounts receivable – other	5,850	(2,419)
Prepaid expenses and other deposits	771	13,125
Materials and supplies inventory	475,852	(503,814)
Deferred outflows of resources	(772,007)	180,645
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable and accrued expenses	(200,423)	(15,069)
Accrued payroll	40,263	18,474
Deposits and unearned revenue	7,896	1,801
Other liabilities	-	4,343
Compensated absences	31,425	19,821
Net pension liability	324,487	(197,957)
Other post employment benefits payable	920,510	254,903
Deferred inflows of resources	104,525	60,088
Total adjustments	3,058,340	1,967,205
Net cash used in operating activities	\$ (1,354,479)	(1,319,893)

See accompanying notes to the basic financial statements

Hi-Desert Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Hi-Desert Water District (District) was formed on December 14, 1962, and provides a safe, reliable water supply and sewer service to a population of about 24,000 people in the Town of Yucca Valley and an unincorporated area in the County San Bernardino. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Hi-Desert Improvement Corporation (HDIC) was incorporated on February 13, 1981. The HDIC is a California nonprofit public benefit corporation formed to assist the Hi-Desert Water District (District) by acquiring, constructing, operating, and maintaining facilities, equipment, or other property needed by the District, and leasing or selling such property to the District and as such has no employees or other operations. Although the HDIC is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations.

The Warren Valley Basin (Basin) provides groundwater supply for the community of Yucca Valley in the County of San Bernardino. Concerned about the significant increase in groundwater overdraft of the Basin, the District filed a complaint for adjudication of the groundwater in 1976. In 1977, the Superior Court of the County of San Bernardino issued its judgment for adjudication. In the adjudication, the Court recognized the need to issue groundwater rights in excess of the Basin's safe yield so that the local economy could support the cost of a solution to the overdraft problem. To administer the provisions of the adjudication judgment, the Court appointed the District as the Warren Valley Basin Watermaster (WVBW) for the Basin and ordered that the WVBW formulate a plan and program for management of the Basin's resources. Although the WVBW is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations and governed by the same Board of Directors. No separate financial statements are prepared for the HDIC and/or WVBW.

On May 23, 2015, the District formed the Assessment District 2014-1 to finance the construction of the Wastewater Reclamation Project (Project). Assessments are used to repay a loan from the Clean Water State Revolving Fund (SRF).

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales, water purchases, and wastewater related charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which the District gives (receives) value without directly receiving (giving) value in exchange.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncement in the current year:

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. 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, deferred outflows, liabilities, and deferred inflows and disclosures of contingent assets, deferred outflows, liabilities, and deferred inflows 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.

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the District and the duration cannot be estimated at this time.

3. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

4. Investments and Investment Policy

The District has adopted an investment policy directing the General Manager to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the District.

Changes in fair value that occur during a fiscal year are recognized as investment income and reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

5. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

6. 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.

7. Materials and Supplies Inventory

Materials and supplies inventory consist primarily of water meters, pipe, and pipefittings for the construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the first-in first-out method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at acquisition value rather than 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.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution mains – 15 to 40 years
- Reservoirs and tanks – 10 to 45 years
- Wells – 10 to 30 years
- Meter service installations – 7 to 10 years
- Recharge site #3 – 40 years
- Recharge ponds – 3 to 40 years
- Nitrate removal plant – 40 years
- Reach II pipeline – 40 years
- Pumps – 12 to 20 years
- Boosters – 20 to 25 years
- Hydrants – 25 to 40 years
- Blending facility – 40 years
- Buildings and structures – 5 to 30 years
- Office furniture and equipment – 5 to 10 years
- Tools and equipment – 5 years
- Vehicles – 4 years

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

9. Property Taxes and Assessments

The County of San Bernardino Assessor's Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of San Bernardino Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of San Bernardino, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

11. Compensated Absences

The District's policy is to permit employees to accumulate paid time off (PTO) in lieu of vacation and sick leave. No employee is allowed to accrue PTO in excess of the following: four hundred forty-eight (448) hours for years one (1) through five (5); five hundred twenty-eight (528) hours for years six (6) through ten (10); six hundred eight (608) hours for years eleven (11) through fifteen (15); six hundred seventy-two (672) hours for years sixteen (16) and greater. Payment of unused PTO shall not reduce the accrual balance to less than eighty (80) hours.

12. Pensions

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation dates – June 30, 2018 and 2017
- Measurement dates – June 30, 2019 and 2018
- Measurement periods – July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

13. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

14. Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statements of net position and as capital grant contribution or operating grant revenue, as appropriate, on the statements of revenues, expenses, and changes in net position.

15. Capital Contributions

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

16. Water Sales

Water sales are billed cyclically on a monthly basis and the respective revenues are recognized when they are earned.

17. Net Position

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

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the *net investment in capital assets* or *restricted* components of net position.

18. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purpose. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

19. Reclassification

The District has reclassified certain prior year information to conform with current year presentation.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,779,138	9,430,721
Cash and cash equivalents - restricted	<u>12,526,074</u>	<u>6,579,985</u>
Total cash and cash equivalents	<u>\$ 18,305,212</u>	<u>16,010,706</u>

Cash and cash equivalents as of June 30, consist of the following:

	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	14,660,345	12,460,935
Deposits held with California Local Agency Investment Fund (LAIF)	<u>3,643,167</u>	<u>3,548,071</u>
Total	<u>\$ 18,305,212</u>	<u>16,010,706</u>

As of June 30, the District's authorized deposits had the following average maturities:

	<u>2020</u>	<u>2019</u>
Deposits held with the California Local Agency Investment Fund (LAIF)	191 days	173 days

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	None
Commercial paper (prime)	270 days	25%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Cash Equivalents, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10 million or more require 24 hours advance.
- Prior to fund transfer, an authorized person must call LAIF for verbal authorization.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of 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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk, 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 public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of 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 Code and the District's investment policy contain legal and 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 mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that the change in market interest rates will adversely affect the fair value of an investment. The longer an investment has to maturity, the greater its fair value has sensitivity to the change in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Cash Equivalents, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, LAIF is not rated.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 20% and 22% as of June 30, 2020 and 2019, respectively, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Accounts Receivable – Water Sales and Services

The balance at June 30 consists of the following:

	2020	2019
Accounts receivable – water sales and services	\$ 1,510,464	1,507,427
Allowance for uncollectible accounts	(52,090)	(29,665)
Accounts receivable – water sales, net	\$ 1,458,374	1,477,762

(4) Grants and Funding Receivable

Grants receivable at June 30 consists of the following:

	2020	2019
US Bureau of Reclamation Grant	\$ 33,605	4,034,434
Prop 84 IRWM Grant	32,172	9,136
Total	\$ 65,777	4,043,570

On September 16, 2014, the District was awarded federal grant funding from the U.S. Department of Interior, Bureau of Reclamation (Reclamation) through a cooperative agreement (Agreement). The project to be constructed under the grant funding agreement includes the design, planning, and construction of the District's wastewater collection and reuse facility in Yucca Valley, California. The estimated amount of the agreement is \$119,445,206. Of this amount, federal grant funds (25% federal share) provided by the Reclamation is \$18,000,000, and the non-federal share of the total project cost (75% non-federal share) provided by other sources is \$101,445,206. As of June 30, 2020 and 2019, the receivable balance from the Reclamation totaled \$33,605 and \$4,034,434, respectively.

On April 13, 2015, the District was awarded a state pass through grant funding from the Department of Water Resources (DWR). The State provides funding from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 to assist the District in financing the projects associated with the Mojave Integrated Regional Water Management Plan pursuant to Chapter 8 of Division 26.5 of the California Water Code (CWC), hereinafter collectively referred to as IRWM Program. The agreement provides for a total grant amount of \$10,176,364. As of June 30, 2020 and 2019, the receivable balance from DWR totaled \$32,172 and \$9,136, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(4) Grants and Funding Receivable, continued

State funding receivable at June 30 consists of the following:

	2020	2019
State of California Clean Water State Revolving Fund Loan	\$ <u>2,397,042</u>	<u>11,651,179</u>

On January 24, 2016, the District was awarded a federal grant passed through the State of California in the form of the Clean Water State Revolving Fund financing. The financing is designed to assist the District in the construction of a sewer collection system, wastewater treatment facility, and water reclamation recharge ponds. Total project cost is estimated to be \$142,349,314. As of June 30, 2020 and 2019, the receivable balance from the State Water Resources Control Board totaled \$2,397,042 and \$11,651,179, respectively.

(5) Notes Receivable

On March 28, 2019, the District entered into an agreement with the California State Water Resources Control Board for loan and grant funding for the Septic System Abatement & Private Lateral Installation Project (Project). The Project is funded in part by the United States Environment Protection Agency (EPA), passed through the California’s Clean Water State Revolving Fund, and state bond proceeds. The loan and grant funding is to be used to decommission and abandon the septic systems on private properties and install private laterals to connect the District’s sewer system for approximately 3,584 residential and 467 commercial buildings in the central portion of the Town of Yucca Valley.

Total project cost is estimated to be \$45,200,000; whereby \$16,000,000 is anticipated to be a grant and \$29,200,000 is estimated to be a loan due to the State Water Resource Control Board. Residents can use the grant and loan funding to construct the private lateral or bear the cost of construction. Residents that participate in the grant and loan funding will be assessed on the County’s property tax roll to repay the loan portion of the funding. Due to the uncertainty of grant and loan participants, the District will assess the grant portion of the funding equably amongst all applicants at the conclusion of the Project. As a result, the grant and loan funding is unearned until the project is complete.

As of June 30, the balance of the note receivable is as follows:

	2020
Unearned revenues	\$ 545,288
Future reimbursement credit	<u>(15,126)</u>
Notes receivable	\$ <u>530,162</u>

Total unearned revenues amounted to \$545,288 as of June 30, 2020. Of this amount, \$15,126 consists of credits for future reimbursement requests resulting from property owners’ decision to opt out of the District’s loan. Any unused credit will be returned to the State or used at the discretion of the State. The difference of \$530,162 is recorded as notes receivable in the Statements of Net Position as of June 30, 2020.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Capital Assets

Change in capital assets for 2020 was as follows:

	<u>Balance 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2020</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	<u>131,644,984</u>	<u>30,613,354</u>	<u>(783,775)</u>	<u>161,474,563</u>
Total non-depreciable assets	<u>133,112,924</u>	<u>30,613,354</u>	<u>(783,775)</u>	<u>162,942,503</u>
Depreciable assets:				
Transmission and distribution mains	35,767,991	2,034,696	-	37,802,687
Reservoirs and tanks	7,230,308	-	-	7,230,308
Wells	7,023,642	211,635	-	7,235,277
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,067,194	-	-	1,067,194
Boosters	2,189,974	63,631	-	2,253,605
Hydrants	847,105	-	-	847,105
Blending facility	792,739	-	-	792,739
Buildings and structures	1,151,786	14,620	-	1,166,406
Office furniture and equipment	1,110,509	36,705	-	1,147,214
Tools and equipment	572,786	-	-	572,786
Vehicles	<u>5,063,459</u>	<u>716,601</u>	<u>-</u>	<u>5,780,060</u>
Total depreciable assets	<u>72,691,081</u>	<u>3,077,888</u>	<u>-</u>	<u>75,768,969</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(12,721,677)	(824,619)	-	(13,546,296)
Reservoirs and tanks	(3,924,883)	(151,586)	-	(4,076,469)
Wells	(4,887,562)	(244,226)	-	(5,131,788)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(1,223,972)	(47,093)	-	(1,271,065)
Recharge site #3	(829,968)	(61,479)	-	(891,447)
Nitrate removal facility	(1,117,879)	(68,234)	-	(1,186,113)
Reach II pipeline	(865,950)	(36,849)	-	(902,799)
Pumps	(1,049,552)	(4,511)	-	(1,054,063)
Boosters	(922,939)	(87,694)	-	(1,010,633)
Hydrants	(733,916)	(12,189)	-	(746,105)
Blending facility	(287,102)	(21,412)	-	(308,514)
Buildings and structures	(886,178)	(28,787)	-	(914,965)
Office furniture and equipment	(1,101,922)	(12,395)	-	(1,114,317)
Tools and equipment	(558,616)	(4,049)	-	(562,665)
Vehicles	<u>(4,541,800)</u>	<u>(311,036)</u>	<u>-</u>	<u>(4,852,836)</u>
Total accumulated depreciation	<u>(36,855,412)</u>	<u>(1,916,159)</u>	<u>-</u>	<u>(38,771,571)</u>
Total depreciable assets, net	<u>35,835,669</u>	<u>1,161,729</u>	<u>-</u>	<u>36,997,398</u>
Total capital assets, net	<u>\$ 168,948,593</u>			<u>199,939,901</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Capital Assets, continued

Change in capital assets for 2019 was as follows:

	<u>Balance 2018</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2019</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	<u>66,659,055</u>	<u>67,154,446</u>	<u>(2,168,517)</u>	<u>131,644,984</u>
Total non-depreciable assets	<u>68,126,995</u>	<u>67,154,446</u>	<u>(2,168,517)</u>	<u>133,112,924</u>
Depreciable assets:				
Transmission and distribution mains	34,009,462	1,758,529	-	35,767,991
Reservoirs and tanks	6,512,857	717,451	-	7,230,308
Wells	6,907,139	116,503	-	7,023,642
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,067,194	-	-	1,067,194
Boosters	890,673	1,299,301	-	2,189,974
Hydrants	847,105	-	-	847,105
Blending facility	792,739	-	-	792,739
Buildings and structures	1,151,786	-	-	1,151,786
Office furniture and equipment	1,110,509	-	-	1,110,509
Tools and equipment	572,786	-	-	572,786
Vehicles	<u>4,737,329</u>	<u>326,130</u>	-	<u>5,063,459</u>
Total depreciable assets	<u>68,473,167</u>	<u>4,217,914</u>	-	<u>72,691,081</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(11,942,042)	(779,635)	-	(12,721,677)
Reservoirs and tanks	(3,777,380)	(147,503)	-	(3,924,883)
Wells	(4,644,914)	(242,648)	-	(4,887,562)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(1,176,880)	(47,092)	-	(1,223,972)
Recharge site #3	(768,488)	(61,480)	-	(829,968)
Nitrate removal facility	(1,049,644)	(68,235)	-	(1,117,879)
Reach II pipeline	(829,102)	(36,848)	-	(865,950)
Pumps	(1,042,909)	(6,643)	-	(1,049,552)
Boosters	(879,116)	(43,823)	-	(922,939)
Hydrants	(721,428)	(12,488)	-	(733,916)
Blending facility	(265,690)	(21,412)	-	(287,102)
Buildings and structures	(855,931)	(30,247)	-	(886,178)
Office furniture and equipment	(1,088,472)	(13,450)	-	(1,101,922)
Tools and equipment	(554,575)	(4,041)	-	(558,616)
Vehicles	<u>(4,186,177)</u>	<u>(355,623)</u>	-	<u>(4,541,800)</u>
Total accumulated depreciation	<u>(34,984,244)</u>	<u>(1,871,168)</u>	-	<u>(36,855,412)</u>
Total depreciable assets, net	<u>33,488,923</u>	<u>2,346,746</u>	-	<u>35,835,669</u>
Total capital assets, net	<u>\$ 101,615,918</u>			<u>168,948,593</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Capital Assets, continued

Major depreciable capital asset additions during fiscal years 2020 and 2019, include additions to the transmission and distribution system mains, reservoirs and tanks, wells, pumps, boosters, tools and equipment, and vehicles.

Construction-In-Process

The District has been involved in various construction projects throughout the year. The projects that comprise the construction-in-process balances as of June 30, are as follows:

	2020	2019
Wastewater treatment facility and collection system	\$ 161,462,273	131,050,529
Palomar Booster Station	-	103,755
CRP Design Phase 2	-	295,355
Well 11W Rehabilitation	-	195,345
Various small projects under \$50,000	12,290	-
Construction-in-process	\$ 161,474,563	131,644,984

(7) Compensated Absences

Compensated absences comprise unpaid paid time off that accrues when benefits are fully vested and are determined annually. Compensated absences turn-over each year; therefore, the compensated absence balance of the District is recorded as a liability on the Statements of Net Position and will be liquidated through the water fund.

Changes to compensated absence balance at June 30, 2020, were as follows:

Balance 2019	Earned	Taken	Balance 2020	Due Within One Year	Due in More Than One Year
\$ 351,460	338,008	(306,583)	382,885	95,721	287,164

Change to compensated absences balance at June 30, 2019, was as follows:

Balance 2018	Earned	Taken	Balance 2019	Due Within One Year	Due in More Than One Year
\$ 331,639	394,398	(374,577)	351,460	87,865	263,595

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(8) Long-term Debt

Changes in long-term debt for the year ended June 30, 2020, were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Payments/ Amortization</u>	<u>Balance 2020</u>	<u>Current</u>	<u>Non-Current</u>
Bonds payable:						
2013 Revenue Refunding bonds	\$ 2,925,000	-	(450,000)	2,475,000	460,000	2,015,000
Premium on revenue refunding bonds	272,739	-	(45,456)	227,283	-	227,283
Total bonds payable	<u>3,197,739</u>	<u>-</u>	<u>(495,456)</u>	<u>2,702,283</u>	<u>460,000</u>	<u>2,242,283</u>
Loans payable:						
Clean Water State Revolving Fund Loan	106,872,481	24,884,248	-	131,756,729	-	131,756,729
Total loans payable	<u>106,872,481</u>	<u>24,884,248</u>	<u>-</u>	<u>131,756,729</u>	<u>-</u>	<u>131,756,729</u>
Total long-term debt	110,070,220	<u>24,884,248</u>	<u>(495,456)</u>	134,459,012	<u>460,000</u>	<u>133,999,012</u>
Current portion	<u>(450,000)</u>			<u>(460,000)</u>		
Non-current portion	\$ <u>109,620,220</u>			<u>133,999,012</u>		

Changes in long-term debt for the year ended June 30, 2019, were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Payments/ Amortization</u>	<u>Balance 2019</u>	<u>Current</u>	<u>Non-Current</u>
Bonds payable:						
2013 Revenue Refunding bonds	\$ 3,360,000	-	(435,000)	2,925,000	450,000	2,475,000
Premium on revenue refunding bonds	318,196	-	(45,457)	272,739	-	272,739
Total bonds payable	<u>3,678,196</u>	<u>-</u>	<u>(480,457)</u>	<u>3,197,739</u>	<u>450,000</u>	<u>2,747,739</u>
Loans payable:						
Clean Water State Revolving Fund Loan	50,150,011	56,722,470	-	106,872,481	-	106,872,481
Total loans payable	<u>50,150,011</u>	<u>56,722,470</u>	<u>-</u>	<u>106,872,481</u>	<u>-</u>	<u>106,872,481</u>
Total long-term debt	53,828,207	<u>56,722,470</u>	<u>(480,457)</u>	110,070,220	<u>450,000</u>	<u>109,620,220</u>
Current portion	<u>(435,000)</u>			<u>(450,000)</u>		
Non-current portion	\$ <u>53,393,207</u>			<u>109,620,220</u>		

2013 Revenue Refunding Bonds

On April 1, 2013, the District issued \$5,110,000 in a twelve-year Water Revenue Refunding Bonds, Series 2013, (2013 Revenue Refunding Bonds) to provide funds to pay off and refund the Districts following prior obligations: the 1986 California Department of Water Resources loan, the 1982 Lease Revenue bonds, the 1998 Revenue Refunding bonds, and the 1978 Farmer's Home Loan Administration note. The bonds and interest are payable from and are secured by a pledge of net revenues and certain funds held under the indenture.

The bonds are scheduled to mature in 2025. Interest payments are due semi-annually on September 1st and March 1st each year at a rate of 2.00%, and principal payments are due annually on March 1st each year.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(8) Long-term Debt, continued

2013 Revenue Refunding Bonds, continued

Annual debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 460,000	104,750	564,750
2022	480,000	86,350	566,350
2023	490,000	76,750	566,750
2024	510,000	52,250	562,250
2025	<u>535,000</u>	<u>26,750</u>	<u>561,750</u>
Total	2,475,000	<u>346,850</u>	<u>2,821,850</u>
Premium	227,283		
Current	<u>(460,000)</u>		
Non-current	<u>\$ 2,242,283</u>		

Clean Water State Revolving Fund Loan

On December 17, 2015, the District entered into a grant funding agreement with the California State Water Resources Control Board (State) for a construction loan and grant, pursuant to the Clean Water State Revolving Fund (SRF) and Chapter 6.5 of Division 7 of the California Water Code, for the purpose of the Clean Water Act. The SRF program is a federal and state partnership that provides communities a permanent, independent source of low-cost financing for a wide range of water quality infrastructure projects.

The project to be constructed under the grant funding agreement includes the construction of a sewer collection system, wastewater treatment facility, and water reclamation recharge ponds. The grant is funded by federal and state monies of 80% and 20% (matching funds), respectively.

The agreement provides grant fund totaling \$142,349,314, bearing an interest rate of 1%, and loan repayment term of 30 years. The loan repayment term shall commence after all disbursements have been paid. The balance of the SRF loan as of June 30, 2020 and 2019, amounted to \$131,756,729 and \$106,872,481, respectively.

(9) Other Post-Employment Benefits

Plan Description

The District's defined benefit other post-employment benefit (OPEB) plan (Plan) provides OPEB to all qualified employees who retire from the District and meet the District's vesting requirements. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The District does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

Benefits Provided

The District offers post-employment medical, dental, vision, and life insurance benefits to employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive medical, dental, and vision benefits. Retirees may enroll in any plan available through the District’s medical, dental, and vision plans; however, the District paid benefits are based on the Silver plan premiums. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors. All retired employees who are eligible for district-paid retirement benefits, and who retire on or after January 1, 2011, will be required to enroll in Medicare Parts A and B at their earliest eligibility, and notify the District of such enrollment. Medicare premiums will be the responsibility of the retiree. For retirees on Medicare, the district-paid retirement benefit is intended to act as a supplement to Medicare.

Retired employees who are eligible for district-paid retirement benefits, who retire on or after January 1, 2011, and who are eligible for Medicare Parts A and B, but not enrolled in it, will relinquish their district-paid medical benefits.

The following is a description of the District’s current retiree benefit plan.

Tier One Retiree Medical Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired on or before November 15, 2000 • Employee must be fifty years of age or older • Employee must have completed ten years of continuous service 	District-paid lifetime medical benefits, which may be amended from time to time

Tier Two Retiree Medical Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired after November 15, 2000, and on or before May 17, 2006 • Employee must be fifty years of age or older • Employee must have completed twenty years of continuous service 	District-paid lifetime medical benefits, which may be amended from time to time

Tier Three Retiree Medical Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired after May 17, 2006, and on or before June 1, 2009 • Employee must be fifty years of age or older • Employee must have completed twenty years of continuous service 	District-paid lifetime medical benefits, which may be amended from time to time, until the earlier of age of sixty-five or Medicare eligibility

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

Benefits Provided, continued

Tier Four Retiree Medical Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired on or after July 1, 2009 	Employee will not receive district-paid lifetime medical benefits
Employees who are eligible to receive any district-paid medical benefits at the time of retirement may continue in the district's medical plan at their own expense if, at the time of retirement:	
<ul style="list-style-type: none"> • Employee must be fifty years of age or older • Employee must have completed ten years of continuous service 	

Tier One Retiree Dental, Vision, and Life Insurance Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired on or before November 15, 2000 • Employee must be sixty years of age or older • Employee must have completed ten years of continuous service 	District-paid lifetime dental, vision, and life insurance benefits, which may be amended from time to time

Tier Two Retiree Dental, Vision, and Life Insurance Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired on or before November 15, 2000, and on or before September 1, 2004 • Employee must be sixty years of age or older • Employee must have completed twenty years of continuous service 	District-paid lifetime dental, vision, and life insurance benefits, which may be amended from time to time

Tier Three Retiree Dental, Vision, and Life Insurance Benefits

At the time of retirement:	Employee will receive:
<ul style="list-style-type: none"> • Applies to those hired on or after September 1, 2004 	Employee will not be eligible to receive district-paid lifetime dental, vision, or life insurance benefits

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

Benefits Provided, continued

The District continues the payment of medical, dental, and vision benefits for spouses of deceased retired District personnel and eligible directors in effect at the time of the retiree’s death provided that the spouse was the spouse at the time of the employee’s retirement; and the beneficiary and spouse have been continuously married for a period of not less than one year. OPEB are to be provided pursuant to the criteria stipulated by the insurance carriers until such time as said spouse either remarries or becomes employed with an employer offering comparable medical coverage as part of its employee benefits program. In the event a surviving spouse terminates coverage, said spouse is not eligible to reenroll.

- **Tier One Surviving Spouse** – qualified employees hired prior to September 1, 2004, receive district-paid lifetime surviving spouse benefits, which may be amended from time to time.
- **Tier Two Surviving Spouse** – qualified employees hired after September 1, 2004, and before April 16, 2008, receive district-paid lifetime surviving spouse benefits, which may be amended from time to time, with any increases over premium cost of April 16, 2008, to be borne by individual.
- **Tier Three Surviving Spouse** – qualified employees hired on or after April 16, 2008, and before July 1, 2009, receive district-paid surviving spouse benefits, which may be amended from time to time, with any increases over premium cost of April 16, 2008, to be borne by individual until the earlier of age 65 years or Medicare eligibility.
- **Tier Four Surviving Spouse** – employees hired on or after July 1, 2009, receive no district-paid surviving spouse benefits.

Employee Covered By Benefit Terms

At June 30, the following employees were covered by the benefit terms:

	2020	2019
Participating active employees	18	20
Inactive employees or beneficiaries currently receiving benefit payments	19	20
Total plan membership	37	40

Total OPEB Liability

The District’s total OPEB liability of \$5,318,570 and \$4,398,060 were measured as of June 30, 2020 and 2019, respectively, and were determined by an actuarial valuation as of June 30, 2020 and 2018, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2020 and 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	2.75%
Discount rate	2020: 2.20% 2019: 3.50%
Healthcare cost trend rates	4.00% per year
Retirees share of benefit-related cost	2020: Future Retirees Pre-65: Dental, vision, and life at \$536; Medical including implied rate subsidy at \$10,956 Future Retirees Post-65: Dental, vision, and life at \$536; Medical at \$5,986 2019: Future Retirees Pre-65: Dental, vision, and life at \$536; Medical including implied rate subsidy at \$9,596 Future Retirees Post-65: Dental, vision, and life at \$536; Medical at \$5,694
Mortality	2020: Mortality assumptions are based on the 2017 CalPERS Retiree Mortality for All Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. 2019: Mortality assumptions are based on the 2014 CalPERS Active and Retiree Mortality for Miscellaneous Employees created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables.

The discount rate was based on an index of 20 year General Obligation municipal bonds rated AA or higher.

For 2020, mortality rates were based on the 2017 CalPERS Mortality for Miscellaneous and School Employees table and the 2017 CalPERS Retiree Mortality for All Employees table created by CalPERS. For 2019, mortality rates were based on the 2014 CalPERS Active Mortality for Miscellaneous Employees table and on the 2014 CalPERS Retiree Mortality for Miscellaneous Employees table created by CalPERS.

CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. These table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

Actuarial Assumptions and Other Inputs, continued

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study as follows:

- Retirement table – 2017 CalPERS 2.5% @ 55 Rates for Miscellaneous Employees
- Turnover table – 2017 CalPERS Turnover for Miscellaneous Employees

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study as follows:

- Retirement table – 2009 CalPERS 2.5% @ 55 Rates for Miscellaneous Employees
- Turnover table – 2009 CalPERS Turnover for Miscellaneous Employees

Inasmuch as the above tables are based on appropriate populations, and that these tables are used for pension purposes, these tables are to be the most appropriate for the valuation.

Changes in the Total OPEB Liability

During the years ended June 30, changes in total OPEB liability were as follows:

	2020	2019
Balance at beginning of year	\$ 4,398,060	4,143,157
Changes during the year:		
Service cost	37,237	34,220
Interest	152,102	143,199
Contributions - employer	(141,817)	(137,737)
Assumption changes	917,094	215,221
Experience loss	(44,106)	-
Net change	920,510	254,903
Balance at end of year	\$ 5,318,570	4,398,060

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

As of June 30, 2020, the following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current discount rate:

	Discount Rate - 1% 1.20%	Current Discount Rate 2.20%	Discount Rate + 1% 3.20%
Net OPEB Liability	\$ 6,276,648	5,318,570	4,555,467

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate, continued

As of June 30, 2019, the following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current discount rate:

		Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
		2.50%	3.50%	4.50%
Net OPEB Liability	\$	5,245,524	4,398,060	3,763,286

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

As of June 30, 2020, the following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Healthcare Cost Trend Rates - 1%	Current Healthcare Cost Trend Rates	Healthcare Cost Trend Rates + 1%
		3%	4%	5%
Net OPEB Liability	\$	4,443,120	5,318,570	6,456,206

As of June 30, 2019, the following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Healthcare Cost Trend Rates - 1%	Current Healthcare Cost Trend Rates	Healthcare Cost Trend Rates + 1%
		3%	4%	5%
Net OPEB Liability	\$	3,726,170	4,398,060	5,273,478

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Other Post-Employment Benefits, continued

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, the District recognized OPEB expense of \$386,287 and \$212,702, respectively. As of June 30, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>2020</u>		<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	(35,938)	-	-
Changes in assumptions	891,916	-	179,938	-
Total	<u>\$ 891,916</u>	<u>(35,938)</u>	<u>179,938</u>	<u>-</u>

As of June 30, 2020, deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Outflows(Inflows) of Resources</u>
2021	\$ 196,948
2022	196,948
2023	196,948
2024	196,948
2025	68,186

(10) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's 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 or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Defined Benefit Pension Plan, continued

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.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan miscellaneous pool in effect as of June 30, are summarized as follows:

	2020			2019		
	Classic	New Classic	PEPRA	Classic	New Classic	PEPRA
Hire date	Prior to January 1, 2011	On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013	Prior to January 1, 2011	On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 60	2.0% @ 62	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 service years	5 service years	5 service years	5 service years	5 service years	5 service years
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.951%	6.915%	7.250%	7.948%	6.912%	6.500%
Required employer contribution rates	12.142%	8.668%	7.072%	11.419%	8.346%	7.266%

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 an actuary and shall be effective on July 1 following notice of the change in 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 fiscal years ended June 30, the contributions recognized as part of pension expense for the Plan were as follows:

	2020	2019
Contributions – employer	\$ <u>714,019</u>	<u>637,178</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Defined Benefit Pension Plan, continued

Net Pension Liability

As of June 30, the District's proportionate shares of the net pension liability were as follows:

	2020	2019
Proportionate share of net pension liability \$	5,764,723	5,440,236

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2020 and 2019, the net pension liability of the Plan is measured as of June 30, 2019 and 2018 (the measurement dates), respectively. The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017 (the valuation dates), rolled forward to June 30, 2019 and 2018, respectively, 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 the measurement dates was as follows:

	Miscellaneous Plan
Proportion – June 30, 2016	0.05685 %
Decrease in proportion	(0.00039)
Proportion – June 30, 2017	0.05646
Decrease in proportion	(0.00020)
Proportion – June 30, 2018	0.05626 %

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the fiscal year ended June 30, 2020 and 2019, the District recognized pension expense of \$433,000 and \$844,277, respectively. As of June 30, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

<u>Description</u>	<u>2020</u>		<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 813,975	-	714,019	-
Differences between actual and expected experience	369,363	-	137,699	-
Change in assumptions	177,443	-	468,195	-
Net difference between projected and actual earnings on plan investments	-	(100,785)	26,895	-
Difference between employer contributions and proportionate share of contributions	123,276	-	77,220	-
Net adjustment due to the difference in proportions of net pension liability	-	(110,773)	-	(142,971)
Total	<u>\$ 1,484,057</u>	<u>(211,558)</u>	<u>1,424,028</u>	<u>(142,971)</u>

As of June 30, 2020 and 2019, the District reported \$813,975 and \$714,019, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the years ended June 30, 2021 and 2020, respectively.

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

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Net Outflows(Inflows) of Resources</u>
2021	\$ 445,705
2022	(68,610)
2023	61,064
2024	20,365

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increase	Varies by entry age and service
Mortality Table*	Derived using CalPERS membership data
Period upon which actuarial Experience survey assumptions were based	1997 – 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

* The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent 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) available online on the CalPERS website.

On December 21, 2016, the Board lowered the discount rate for the PERF C for funding purposes from 7.50% to 7.00% percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations.

On December 19, 2017, the Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumption. These new assumptions are incorporated into the June 30, 2017 actuarial valuations.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2020 and 2019, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

The PERF C 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 for those pension plans' investments were 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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Defined Benefit Pension Plan, continued

Discount Rate, continued

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 and forecasted information for all 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 table below reflects long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
	<u>100.00 %</u>		

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

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

As of June 30, 2020, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
District's Net Pension Liability	\$ <u>8,600,917</u>	<u>5,764,723</u>	<u>3,423,646</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Defined Benefit Pension Plan, continued

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

As of June 30, 2019, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% <u>6.15%</u>	Current Discount Rate <u>7.15%</u>	Discount Rate + 1% <u>8.15%</u>
District's Net Pension Liability	\$ <u>7,902,887</u>	<u>5,440,236</u>	<u>3,407,360</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 61 and 62 for the Required Supplementary Information.

(11) Net Position

Calculation of net position as of June 30, was as follows:

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Net investment in capital assets:		
Capital assets, net	\$ 199,939,901	168,948,593
Bond premium	(227,283)	(272,739)
Bonds payable – current portion	(460,000)	(450,000)
Bonds payable – non-current portion	(2,015,000)	(2,475,000)
Loans payable – non-current portion	(131,756,729)	(106,872,481)
Total net investment in capital assets	65,480,889	58,878,373
Restricted net position:		
Assessment District 2014-1	7,133,006	3,297,498
Measure Z sales tax	5,393,068	3,282,487
Total restricted net position	12,526,074	6,579,985
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	510,954	986,806
Prepaid lease payment	720,409	720,409
Prepaid expenses and other deposits	118,334	119,105
Total non-spendable net position	1,349,697	1,826,320
Spendable net position:		
Unrestricted	(3,001,278)	(1,273,356)
Total spendable net position	(3,001,278)	(1,273,356)
Total unrestricted net position	(1,651,581)	552,964
Total net position	\$ 76,355,382	66,011,322

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Deferred Compensation Savings Plan

The District participates in a 457 Deferred Compensation Program (Program) for the benefit of its employees. The purpose of the Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation; therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by CalPERS at June 30, 2020 and 2019, totaled \$136,332 and \$119,887, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2020 and 2019, totaled \$1,179,757 and \$1,068,268, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statements of net position.

(13) Morongo Basin Project and Surcharge

The District is a participant of the Mojave Water Agency's Improvement District M State Water Project (Morongo Basin Project). The Mojave Water Agency was authorized to issue \$66,500,000 of general obligation bonds to build a pipeline connection from the State Water Project's California Aqueduct in Hesperia to the Morongo Basin. The project was completed in June 1996, and to date \$51,780,000 in bonded debt has been issued to cover the costs of the construction. The District and other project participants have agreed to pay their portion of the construction, operation, and financing costs for the entire project. Therefore, the District is charging all of its customers a monthly surcharge to pay for the District's expense for participating in the Morongo Basin Project. Total surcharge revenue for the fiscal years ended June 30, 2020 and 2019, totaled \$51,052 and \$557,752, respectively.

The agreement is being treated as a 25-year operating lease since title to the pipeline connection assets will not be transferred to the District. As part of the agreement, the District is required to pre-pay its portion of the lease (debt service on the project) on June 1, for the next fiscal year. The District's commitment under the agreement is 17.70% of the annual bonded debt service requirements (principal and interest).

The Mojave Water Agency believes the current cash reserves maintained for the Morongo Basin Project is sufficient to discontinue the surcharge assessed by the District. The Mojave Water Agency plans to bill all participants a final bill on May 2022, when the general obligation bonds for the Morongo Basin Project will be paid in full.

At June 30, 2020 and 2019, the District has recorded a prepaid asset on the statements of net position in the amount of \$720,409 related to the Morongo Basin Project and Surcharge.

(14) Assessment District No. 2014-1

On February 18, 2015, The Board of Directors authorized staff to initiate the construction of certain sewer improvements, including the construction of the wastewater reclamation facility, sewer collection and lateral lines connecting sewer lines to the property lines of certain properties, together with appurtenances and appurtenant work, including the repairs to streets within which the sewer lines are installed, and initiating proceedings to establish a special assessment district to finance the costs of such construction pursuant to the terms and provisions of the Municipal Improvement Act of 1913. The special assessment district is designated as Assessment District 2014-1.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(14) Assessment District No. 2014-1, continued

On May 13, 2015, the Board of Directors authorized the District's General Manager to establish an Improvement Fund, whereby assessment revenues collected from owners of real property within the Assessment District will be used to service the Clean Water State Revolving Fund Loan from the California State Water Resources Control Board. For the fiscal years ended June 30, 2020 and 2019, the District recognized assessment revenues totaling \$3,877,314 and \$2,673,129, respectively.

On August 3, 2017, the Board of Directors authorized the District's General Manager to establish a Measure Z Sales Tax Checking Account (Account), whereby an additional Town of Yucca Valley sales tax at a rate of 0.5% is collected for 10 years and deposited into the account. Revenues from the Measure Z Sales Tax is to be used to service the Clean Water State Revolving Fund Loan from the California State Water Resources Control Board. For the fiscal years ended June 30, 2020 and 2019, the District recognized Measure Z sales tax revenues totaling \$2,040,545 and \$2,028,361, respectively.

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2020, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$60 million for general, auto, and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud, plus \$500,000 excess crime coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.

In addition, the District also has the following insurance coverage:

- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law purchased through the Special District Risk Management Authority (SDRMA).

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the fiscal years ended June 30, 2020, 2019, and 2018. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2020, 2019, and 2018.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 89, continued

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(17) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such audit could lead to requests for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(18) Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of November 18, 2020, which is the date the financial statements were available to be issued.



Required Supplementary Information

Hi-Desert Water District
Schedules of Changes in Net OPEB Liability and Related Ratios
For the Fiscal Years Ended June 30, 2020
Last Ten Years*

Defined Benefit OPEB Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 37,237	34,220	33,304
Interest	152,102	143,199	153,369
Assumption changes	917,094	215,221	-
Benefit payments	(141,817)	(137,737)	(126,688)
Experience loss	(44,106)	-	-
Net change in total OPEB liability	920,510	254,903	59,985
Total OPEB liability – beginning of year	<u>4,398,060</u>	<u>4,143,157</u>	<u>4,083,172</u>
Total OPEB liability – end of year	\$ <u>5,318,570</u>	<u>4,398,060</u>	<u>4,143,157</u>
Covered-employee payroll	\$ <u>1,786,554</u>	<u>2,938,882</u>	<u>2,797,259</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>297.70%</u>	<u>149.65%</u>	<u>148.11%</u>

Notes to Schedule

Benefit changes – None noted.

Changes of assumptions – The discount rate decreased from 3.80% in fiscal year 2018 to 3.50% in fiscal year 2019, and to 2.20% in fiscal year 2020.

The retirees share of benefit-related cost for future retirees pre-65 is \$536 for dental, vision, and life and \$10,956 for medical; and for future retirees post-65 is \$536 for dental, vision, and life and \$5,986 for medical in fiscal year 2020. The retirees share of benefit-related cost for future retirees pre-65 is \$536 for dental, vision, and life and \$9,596 for medical; and for future retirees post-65 is \$536 for dental, vision, and life and \$5,694 for medical in fiscal year 2019.

In 2020, the mortality assumptions are based on the 2017 CalPERS Retiree Mortality for All Employees table created by CalPERS. In 2019, the mortality assumptions are based on the 2014 CalPERS Active and Retiree Mortality for Miscellaneous Employees created by CalPERS.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Hi-Desert Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last Ten Years*

<u>Description</u>	<u>Measurement Dates</u>					
	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's proportion of the net pension liability	0.05626 %	0.05646 %	0.05685 %	0.05784 %	0.06170 %	0.05575 %
District's proportionate share of the net pension liability	\$ 5,764,723	5,440,236	5,638,193	5,005,060	4,234,766	3,468,735
District's covered payroll	\$ 3,027,048	2,881,177	2,423,895	2,408,114	2,255,616	2,048,638
District's proportionate share of the net pension liability as a percentage of its covered payroll	190.44%	188.82%	232.61%	207.84%	187.74%	169.32%
Plan's fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%	79.40%

Notes:

Change in Benefit Terms – Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions – In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%.

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period, and remained adjusted for administrative expenses.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Hi-Desert Water District
Schedules of Pension Plan Contributions
As of June 30, 2020
Last Ten Years*

<u>Description</u>	<u>Fiscal Years Ended</u>					
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially determined contribution	\$ 813,975	714,019	624,870	576,531	522,794	549,865
Contributions in relation o the actuarially determined contribution	<u>(813,975)</u>	<u>(714,019)</u>	<u>(637,178)</u>	<u>(637,178)</u>	<u>(228,861)</u>	<u>(457,832)</u>
Contribution deficiency(excess)	\$ -	-	<u>(12,308)</u>	<u>(60,647)</u>	<u>293,933</u>	<u>92,033</u>
Covered payroll	\$ <u>3,943,145</u>	<u>3,027,048</u>	<u>2,881,177</u>	<u>2,423,895</u>	<u>2,408,114</u>	<u>2,255,616</u>
Contribution's as a percentage of covered payroll	<u>20.64%</u>	<u>23.59%</u>	<u>22.12%</u>	<u>26.29%</u>	<u>9.50%</u>	<u>20.30%</u>

Notes:

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.



Supplemental Information Section

Hi-Desert Water District
Combining Schedules of Net Position
June 30, 2020 and 2019

	<u>Enterprise Funds</u>		<u>2020</u>	<u>Enterprise Funds</u>		<u>2019</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>		<u>Water Fund</u>	<u>Sewer Fund</u>	
Current assets:						
Cash and cash equivalents	\$ 5,195,599	583,539	5,779,138	4,689,991	4,740,730	9,430,721
Cash and cash equivalents - restricted	-	12,526,074	12,526,074	-	6,579,985	6,579,985
Accounts receivable – water sales and services, net	1,397,633	60,741	1,458,374	1,477,762	-	1,477,762
Accounts receivable – other	1,422	1,000	2,422	7,272	1,000	8,272
Property taxes receivable	52,654	546,516	599,170	33,690	564,885	598,575
Federal grants receivable	-	33,605	33,605	-	4,034,434	4,034,434
State and local grants receivable	32,172	-	32,172	6,886	2,250	9,136
State funding receivable	-	2,397,042	2,397,042	-	11,651,179	11,651,179
Accrued interest receivable	13,228	-	13,228	22,634	-	22,634
Internal balances	9,638,162	(9,638,162)	-	8,550,292	(8,550,292)	-
Prepaid lease payment	720,409	-	720,409	720,409	-	720,409
Prepaid expense and other deposits	118,334	-	118,334	119,105	-	119,105
Materials and supplies inventory	510,954	-	510,954	986,806	-	986,806
Total current assets	<u>17,680,567</u>	<u>6,510,355</u>	<u>24,190,922</u>	<u>16,614,847</u>	<u>19,024,171</u>	<u>35,639,018</u>
Non-current assets:						
Capital assets – not being depreciated	1,156,944	161,785,559	162,942,503	1,739,109	131,373,815	133,112,924
Depreciable capital assets, net	36,408,687	588,711	36,997,398	35,798,616	37,053	35,835,669
Notes receivable	-	530,162	530,162	-	-	-
Total non-current assets	<u>37,565,631</u>	<u>162,904,432</u>	<u>200,470,063</u>	<u>37,537,725</u>	<u>131,410,868</u>	<u>168,948,593</u>
Total assets	<u>55,246,198</u>	<u>169,414,787</u>	<u>224,660,985</u>	<u>54,152,572</u>	<u>150,435,039</u>	<u>204,587,611</u>
Deferred outflows of resources:						
Deferred OPEB outflows	891,916	-	891,916	179,938	-	179,938
Deferred pension outflows	1,484,057	-	1,484,057	1,424,028	-	1,424,028
Total deferred outflows of resources	<u>\$ 2,375,973</u>	<u>-</u>	<u>2,375,973</u>	<u>1,603,966</u>	<u>-</u>	<u>1,603,966</u>

Continued on next page

Hi-Desert Water District
Combining Schedules of Net Position, continued
June 30, 2020 and 2019

	<u>Enterprise Funds</u>		<u>2020</u>	<u>Enterprise Funds</u>		<u>2019</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>		<u>Water Fund</u>	<u>Sewer Fund</u>	
Current liabilities:						
Accounts payable and accrued expenses	\$ 266,696	-	266,696	467,119	-	467,119
Accounts payable - construction	-	3,001,545	3,001,545	-	18,661,487	18,661,487
Accrued payroll	203,600	-	203,600	163,337	-	163,337
Accrued interest on long-term debt	17,458	-	17,458	18,958	-	18,958
Deposits	469,036	924	469,960	462,027	37	462,064
Unearned revenues	-	545,288	545,288	-	-	-
Other liabilities	4,343	-	4,343	4,343	-	4,343
Long-term liabilities – due within one year:						
Compensated absences	84,333	11,388	95,721	87,865	-	87,865
Bonds payable	460,000	-	460,000	450,000	-	450,000
Total current liabilities	<u>1,505,466</u>	<u>3,559,145</u>	<u>5,064,611</u>	<u>1,653,649</u>	<u>18,661,524</u>	<u>20,315,173</u>
Non-current liabilities:						
Long-term liabilities – due in more than one year:						
Compensated absences	253,000	34,164	287,164	263,595	-	263,595
Net OPEB liability	5,318,570	-	5,318,570	4,398,060	-	4,398,060
Net pension liability	5,764,723	-	5,764,723	5,440,236	-	5,440,236
Bonds payable, net	2,242,283	-	2,242,283	2,747,739	-	2,747,739
Loans payable	-	131,756,729	131,756,729	-	106,872,481	106,872,481
Total non-current liabilities	<u>13,578,576</u>	<u>131,790,893</u>	<u>145,369,469</u>	<u>12,849,630</u>	<u>106,872,481</u>	<u>119,722,111</u>
Total liabilities	<u>15,084,042</u>	<u>135,350,038</u>	<u>150,434,080</u>	<u>14,503,279</u>	<u>125,534,005</u>	<u>140,037,284</u>
Deferred inflows of resources:						
Deferred OPEB inflows	35,938	-	35,938	-	-	-
Deferred pension inflows	211,558	-	211,558	142,971	-	142,971
Total deferred inflows of resources	<u>247,496</u>	<u>-</u>	<u>247,496</u>	<u>142,971</u>	<u>-</u>	<u>142,971</u>
Net position:						
Net investment in capital assets	34,863,348	30,617,541	65,480,889	34,339,986	24,538,387	58,878,373
Restricted	-	12,526,074	12,526,074	-	6,579,985	6,579,985
Unrestricted (deficit)	7,427,285	(9,078,866)	(1,651,581)	6,770,302	(6,217,338)	552,964
Total net position	<u>\$ 42,290,633</u>	<u>34,064,749</u>	<u>76,355,382</u>	<u>41,110,288</u>	<u>24,901,034</u>	<u>66,011,322</u>

Hi-Desert Water District
Combining Schedules of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>Enterprise Funds</u>			<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2020</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2019</u>
Operating revenues:						
Water consumption sales	\$ 5,864,805	194,103	6,058,908	5,707,152	-	5,707,152
Readiness-to-serve fees	1,727,259	(1,797)	1,725,462	1,800,183	-	1,800,183
Other charges	231,784	12,165	243,949	290,730	15,220	305,950
Total operating revenues	<u>7,823,848</u>	<u>204,471</u>	<u>8,028,319</u>	<u>7,798,065</u>	<u>15,220</u>	<u>7,813,285</u>
Operating expenses:						
Source of supply	721,112	-	721,112	1,794,010	-	1,794,010
Pumping and water treatment	1,902,833	504,481	2,407,314	1,756,121	-	1,756,121
Transmission and distribution	1,762,708	178,123	1,940,831	1,687,110	-	1,687,110
Customer accounts	259,413	-	259,413	371,078	-	371,078
Wastewater operations	-	1,026,977	1,026,977	-	158,690	158,690
General and administrative	4,169,332	-	4,169,332	3,462,206	-	3,462,206
Total operating expenses	<u>8,815,398</u>	<u>1,709,581</u>	<u>10,524,979</u>	<u>9,070,525</u>	<u>158,690</u>	<u>9,229,215</u>
Operating loss before depreciation	(991,550)	(1,505,110)	(2,496,660)	(1,272,460)	(143,470)	(1,415,930)
Depreciation	(1,821,965)	(94,194)	(1,916,159)	(1,863,921)	(7,247)	(1,871,168)
Operating loss	<u>\$ (2,813,515)</u>	<u>(1,599,304)</u>	<u>(4,412,819)</u>	<u>(3,136,381)</u>	<u>(150,717)</u>	<u>(3,287,098)</u>

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Hi-Desert Water District
Combining Schedules of Revenues, Expenses, and Changes in Net Position, continued
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>Enterprise Funds</u>			<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2020</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2019</u>
Non-operating revenue (expense):						
Property taxes	\$ 1,703,128	-	1,703,128	1,634,342	-	1,634,342
Measure Z sales tax revenue	-	2,040,545	2,040,545	-	2,028,361	2,028,361
Assessment revenue	-	3,877,314	3,877,314	-	2,673,129	2,673,129
Interest earnings	131,169	-	131,169	151,394	-	151,394
Capital surcharge	1,224,922	-	1,224,922	1,065,563	-	1,065,563
Morongo Basin Project surcharge	51,052	-	51,052	557,752	-	557,752
Lease payment – Morongo Basin Project	(8,960)	-	(8,960)	(481,070)	-	(481,070)
Interest expense – long-term debt	(107,564)	-	(107,564)	(118,103)	-	(118,103)
Other non-operating revenues	197,275	-	197,275	261,700	-	261,700
Other non-operating expense	(13,631)	-	(13,631)	(13,785)	-	(13,785)
Total non-operating revenues, net	<u>3,177,391</u>	<u>5,917,859</u>	<u>9,095,250</u>	<u>3,057,793</u>	<u>4,701,490</u>	<u>7,759,283</u>
Net income (loss) before capital contributions	<u>363,876</u>	<u>4,318,555</u>	<u>4,682,431</u>	<u>(78,588)</u>	<u>4,550,773</u>	<u>4,472,185</u>
Capital contributions:						
Grant revenue	404,810	4,845,160	5,249,970	5,000	10,652,176	10,657,176
Meter sales and installations	411,659	-	411,659	368,245	-	368,245
Total capital contributions	<u>816,469</u>	<u>4,845,160</u>	<u>5,661,629</u>	<u>373,245</u>	<u>10,652,176</u>	<u>11,025,421</u>
Change in net position	1,180,345	9,163,715	10,344,060	294,657	15,202,949	15,497,606
Net position, beginning of period	<u>41,110,288</u>	<u>24,901,034</u>	<u>66,011,322</u>	<u>40,815,631</u>	<u>9,698,085</u>	<u>50,513,716</u>
Net position, end of period	<u>\$ 42,290,633</u>	<u>34,064,749</u>	<u>76,355,382</u>	<u>41,110,288</u>	<u>24,901,034</u>	<u>66,011,322</u>

Statistical Information Section

**Hi-Desert Water District
Statistical Section**

This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

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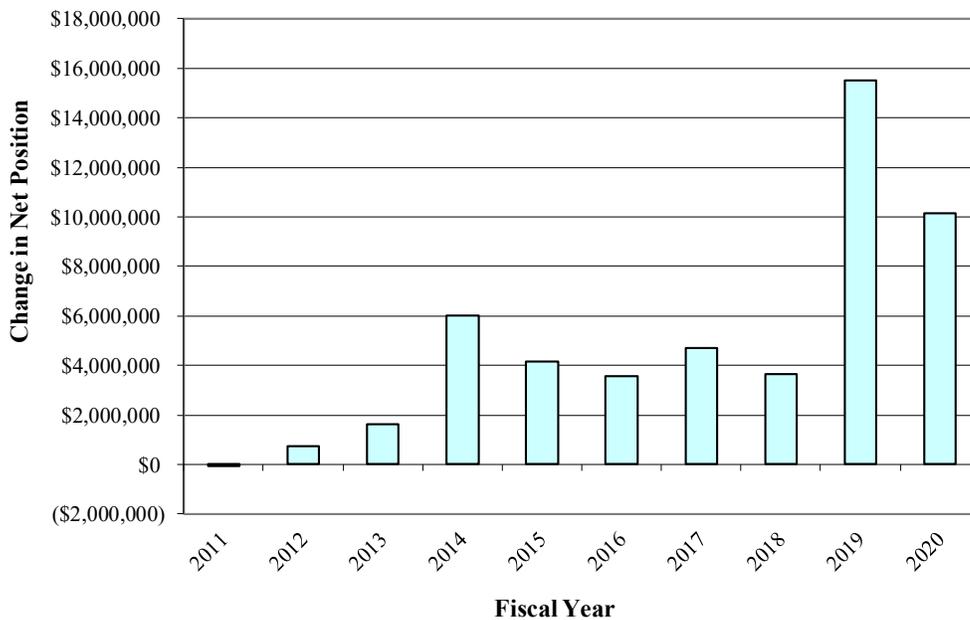
	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	68-71
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	72-75
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	76-77
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	78
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	79-80

**Hi-Desert Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years**

Schedule 1

	Fiscal Year				
	2011	2012	2013	2014	2015
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 7,285,396	7,654,560	7,875,823	8,270,632	7,616,919
Operating expenses (see Schedule 3)	(7,836,459)	(7,153,393)	(8,399,247)	(5,604,675)	(6,863,367)
Depreciation and amortization	(1,435,786)	(1,393,659)	(1,532,888)	(1,375,158)	(1,555,113)
Operating income(loss)	(1,986,849)	(892,492)	(2,056,312)	1,290,799	(801,561)
Non-operating revenues(expenses):					
Property taxes	1,317,622	1,292,775	1,354,043	1,338,163	1,393,362
Assessment revenue	-	-	-	-	-
Investment income	14,413	14,148	11,846	53,148	57,118
Dept. of Water Resources Reach II surcharge	584,509	893,895	1,013,458	1,019,310	1,033,544
Morongo Basin Project	521,250	517,716	528,887	532,424	539,748
Lease payment - Morongo Basin Project	(527,290)	(524,958)	(513,073)	(480,021)	(480,187)
Interest expense	(260,680)	(243,280)	(284,330)	(257,853)	(139,733)
Bond issuance costs	-	-	(110,078)	(2,131)	(31,337)
Other revenue/(expense), net	(1) 34,359	(1,021,925)	108,241	36,625	90,976
Total non-operating revenues, net	1,684,183	928,371	2,108,994	2,239,665	2,463,491
Net income (loss) before capital contributions	(302,666)	35,879	52,682	3,530,464	1,661,930
Capital contributions	218,433	687,323	1,572,905	2,497,998	2,508,448
Changes in net position	\$ (84,233)	723,202	1,625,587	6,028,462	4,170,378
Net position by component:					
Net investment in capital assets	\$ 24,993,182	25,599,745	26,627,116	32,102,689	35,998,775
Restricted	-	-	-	-	-
Unrestricted	5,397,921	5,514,560	6,112,776	8,482,841	5,723,695
Total net position	\$ 30,391,103	31,114,305	32,739,892	40,585,530	41,722,470

Note: (1) Includes CalPERS Side-Fund expense in FY 2012.

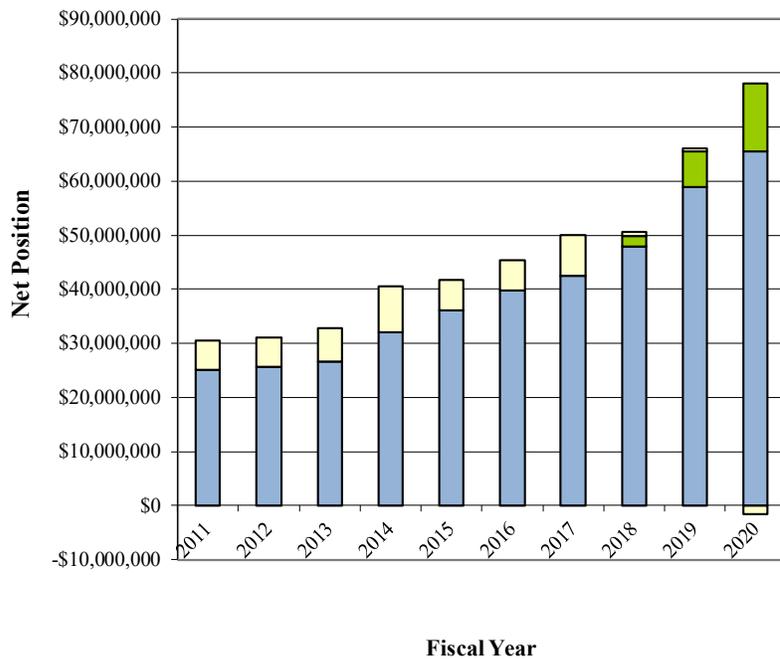


Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years**

Schedule 1

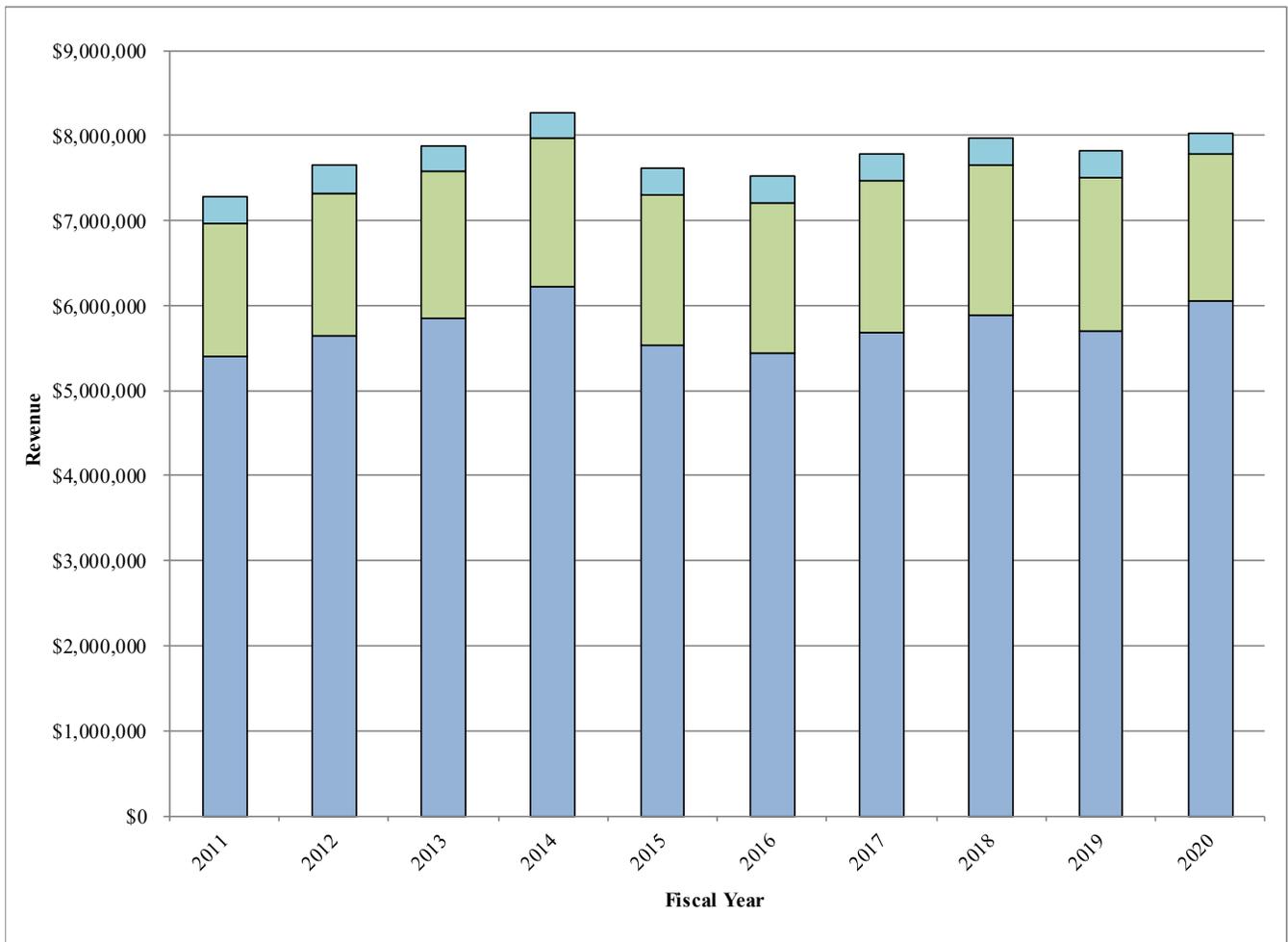
Fiscal Year				
2016	2017	2018	2019	2020
7,512,847	7,779,002	7,968,186	7,813,285	8,028,319
(7,512,365)	(8,423,756)	(10,922,202)	(9,229,215)	(10,524,979)
(1,811,941)	(1,904,459)	(1,912,447)	(1,871,168)	(1,916,159)
(1,811,459)	(2,549,213)	(4,866,463)	(3,287,098)	(4,412,819)
1,448,390	1,483,026	1,538,716	1,634,342	1,703,128
650,071	18,160	1,776,801	4,701,490	5,917,859
65,086	70,752	104,782	151,394	131,169
1,040,681	1,043,528	1,052,307	1,065,563	1,224,922
543,894	545,689	550,632	557,752	51,052
(479,946)	(479,651)	(487,102)	(481,070)	(8,960)
(158,943)	(147,196)	(134,605)	(118,103)	(107,564)
(3,631)	(3,631)	(3,631)	(3,631)	-
46,442	151,628	171,672	251,546	183,644
3,152,044	2,682,305	4,569,572	7,759,283	9,095,250
1,340,585	133,092	(296,891)	4,472,185	4,472,185
2,239,380	4,571,514	3,956,009	11,025,421	5,661,629
3,579,965	4,704,606	3,659,118	15,497,606	10,133,814
39,682,015	42,424,863	47,787,711	58,878,373	65,480,889
-	-	1,987,520	6,579,985	12,526,074
5,620,420	7,582,178	738,485	552,964	(1,651,581)
45,302,435	50,007,041	50,513,716	66,011,322	76,355,382



Hi-Desert Water District Operating Revenues by Source Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Consumption Sales	Connection Fees	Readiness-to-serve Fees	Service Assessments	Other Charges	Total Operating Revenue
2011	5,399,333	-	1,564,094	-	321,969	7,285,396
2012	5,647,160	-	1,679,168	-	328,232	7,654,560
2013	5,852,385	-	1,721,526	-	301,912	7,875,823
2014	6,229,153	-	1,738,905	-	302,574	8,270,632
2015	5,538,428	-	1,762,154	-	316,337	7,616,919
2016	5,438,541	-	1,770,154	-	304,152	7,512,847
2017	5,684,811	-	1,783,455	-	310,736	7,779,002
2018	5,882,939	-	1,774,138	-	311,109	7,968,186
2019	5,707,152	-	1,800,183	-	305,950	7,813,285
2020	6,058,908	-	1,725,462	-	243,949	8,028,319

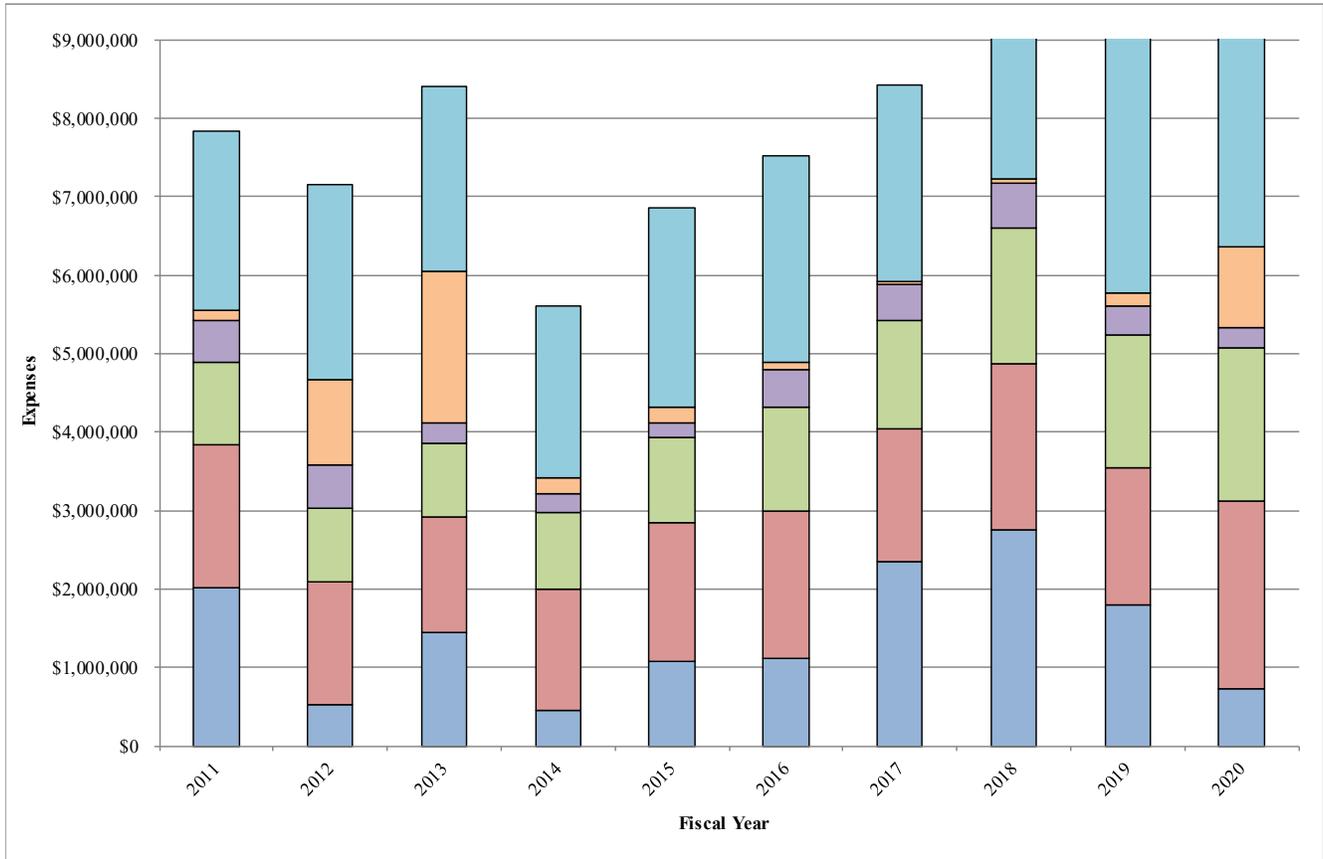


Source: Hi-Desert Water District Accounting Department

Hi-Desert Water District Operating Expenses by Activity Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping and Water Treatment	Transmission and Distribution	Customer Accounts	Wastewater Operations	General and Administrative	Total Operating Expenses
2011	2,011,908	1,825,921	1,052,585	535,455	116,993	2,293,597	7,836,459
2012	532,350	1,564,708	925,133	551,548	1,084,190	2,495,464	7,153,393
2013	1,446,300	1,469,160	933,629	273,606	1,924,239	2,352,313	8,399,247
2014	454,950	1,536,227	983,161	231,935	199,742	2,198,660	5,604,675
2015	1,070,190	1,772,996	1,092,276	174,430	198,639	2,554,836	6,863,367
2016	1,121,814	1,875,176	1,316,808	489,008	75,799	2,633,760	7,512,365
2017	2,341,561	1,689,555	1,392,429	456,547	38,649	2,505,015	8,423,756
2018	2,752,253	2,121,494	1,733,198	561,103	49,574	3,704,580	10,922,202
2019	1,794,010	1,756,121	1,687,110	371,078	158,690	3,462,206	9,229,215
2020	721,112	2,407,314	1,940,831	259,413	1,026,977	4,169,332	10,524,979

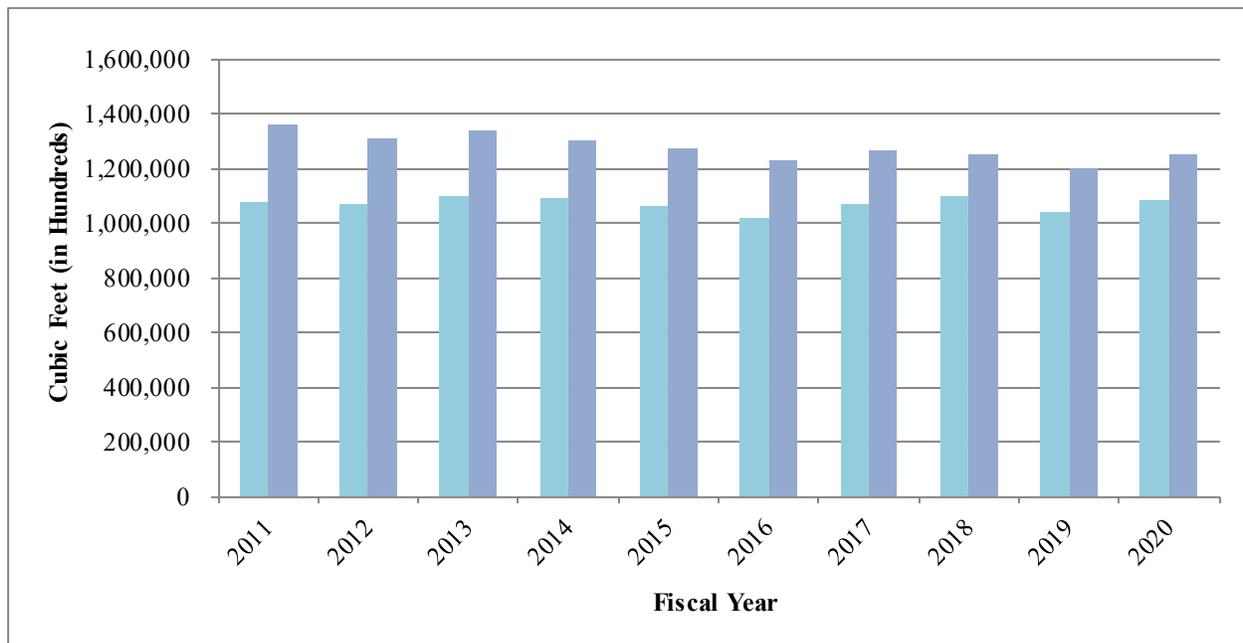


Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Revenue Base
Last Ten Fiscal Years**

Schedule 4

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
2011	1,076,856	1,359,862
2012	1,070,166	1,308,588
2013	1,095,624	1,339,394
2014	1,091,186	1,300,001
2015	1,060,296	1,275,294
2016	1,020,490	1,227,125
2017	1,070,591	1,262,241
2018	1,101,130	1,253,973
2019	1,039,903	1,199,358
2020	1,083,500	1,247,857



Source: Hi-Desert Water District Accounting Department

Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

**Hi-Desert Water District
Revenue Rates⁽¹⁾
Last Ten Fiscal Years**

Schedule 5

Water Consumption per Hundred Cubic Feet (HCF)

HCF Consumed		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0-4	\$	3.40	3.59	3.59	3.59	3.59	3.59	3.59	3.59	3.59	3.65
5-10 / 5-11 (2020)		5.30	5.69	5.69	5.69	5.69	5.69	5.69	5.69	5.69	6.17
11-28 / 12-28 (2020)		6.41	6.89	6.89	6.89	6.89	6.89	6.89	6.89	6.89	7.02
29-40		8.56	9.08	9.08	9.08	9.08	9.08	9.08	9.08	9.08	7.02
41-53		8.56	9.08	9.08	9.08	9.08	9.08	9.08	9.08	9.08	7.02
54-65		8.56	9.08	9.08	9.08	9.08	9.08	9.08	9.08	9.08	7.02
66-78		8.56	9.08	9.08	9.08	9.08	9.08	9.08	9.08	9.08	7.02
79-over		8.56	9.08	9.08	9.08	9.08	9.08	9.08	9.08	9.08	7.02

Connection Fees per Month

Meter Size		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
5/8" & 3/4"	\$	11.10	11.80	11.80	11.80	11.80	11.80	11.80	11.80	11.80	10.39
1"		22.50	23.80	23.80	23.80	23.80	23.80	23.80	23.80	23.80	15.12
1 1/2"		41.50	43.80	43.80	43.80	43.80	43.80	43.80	43.80	43.80	23.01
2"		64.20	67.80	67.80	67.80	67.80	67.80	67.80	67.80	67.80	32.47
3"		124.90	131.90	131.90	131.90	131.90	131.90	131.90	131.90	131.90	57.70
4"		193.10	203.90	203.90	203.90	203.90	203.90	203.90	203.90	203.90	86.09
6"		382.70	404.10	404.10	404.10	404.10	404.10	404.10	404.10	404.10	164.94

Pipeline Surcharge Fees per Month

Meter Size		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
5/8" & 3/4"	\$	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	0.00
1"		8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	0.00
1 1/2"		12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	0.00
2"		20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	0.00
3"		44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00	0.00
4"		68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	0.00
6"		132.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00	0.00

Capital Replacement Program (CRP) Surcharge Fees per Month

Meter Size		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
5/8" & 3/4"	\$	5.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	10.36
1"		10.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	25.90
1 1/2"		15.00	22.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	51.80
2"		25.00	37.50	37.50	37.50	37.50	37.50	37.50	37.50	37.50	82.88
3"		55.00	82.50	82.50	82.50	82.50	82.50	82.50	82.50	82.50	165.75
4"		85.00	127.50	127.50	127.50	127.50	127.50	127.50	127.50	127.50	258.97
6"		165.00	247.50	247.50	247.50	247.50	247.50	247.50	247.50	247.50	517.94

Source: Hi-Desert Water District Board of Directors approved rate ordinances and resolutions

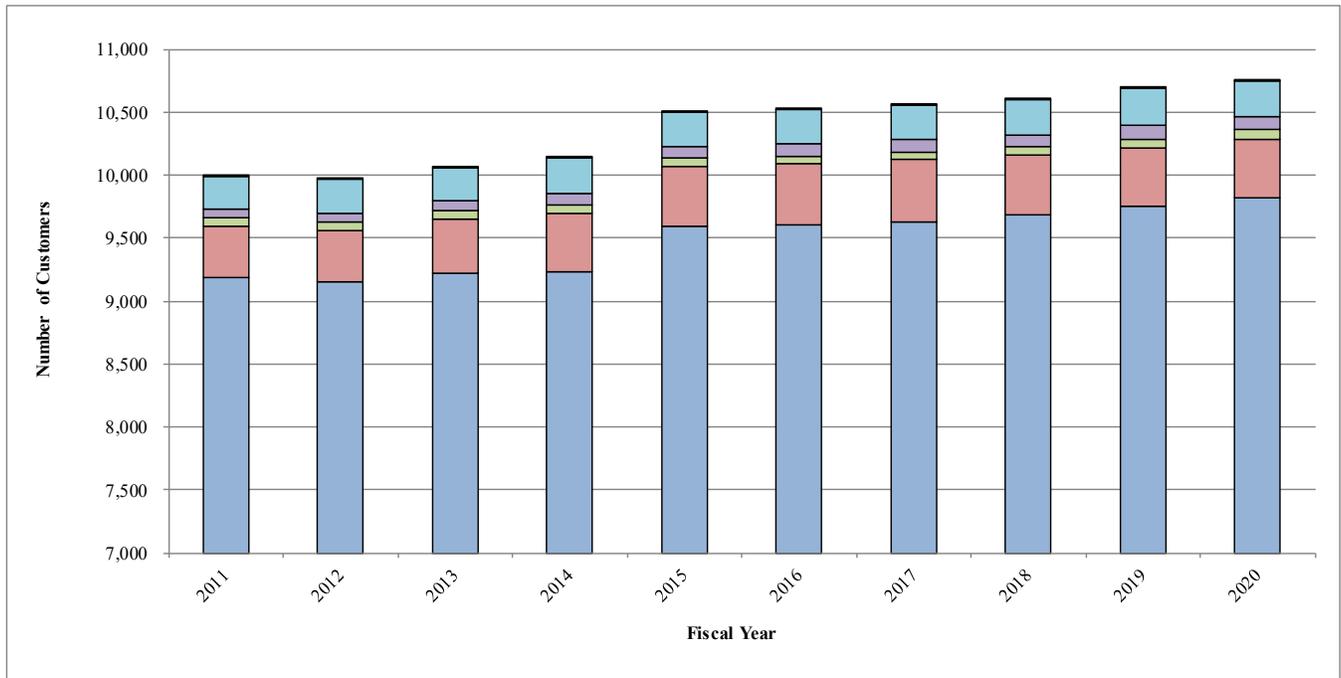
Note:

(1) Rates as of June 30, of each fiscal year.

Hi-Desert Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type						Total
	Residential	Commercial	Public Entities	Irrigation	Multi-Family	Parks	
2011	9,190	408	61	69	261	12	10,001
2012	9,155	404	63	71	271	12	9,976
2013	9,220	431	62	79	261	12	10,065
2014	9,235	464	63	86	287	13	10,148
2015	9,594	477	64	91	273	13	10,512
2016	9,605	483	64	94	273	13	10,532
2017	9,630	492	63	93	273	13	10,564
2018	9,686	476	65	95	272	13	10,607
2019	9,748	472	62	115	290	13	10,700
2020	9,820	459	77	107	283	13	10,759



Source: Hi-Desert Water District Accounting Department

Note: Number of customers as of June 30, of fiscal year.

**Hi-Desert Water District
Principal Customers
Current Fiscal Year and Nine Years Ago**

Schedule 7

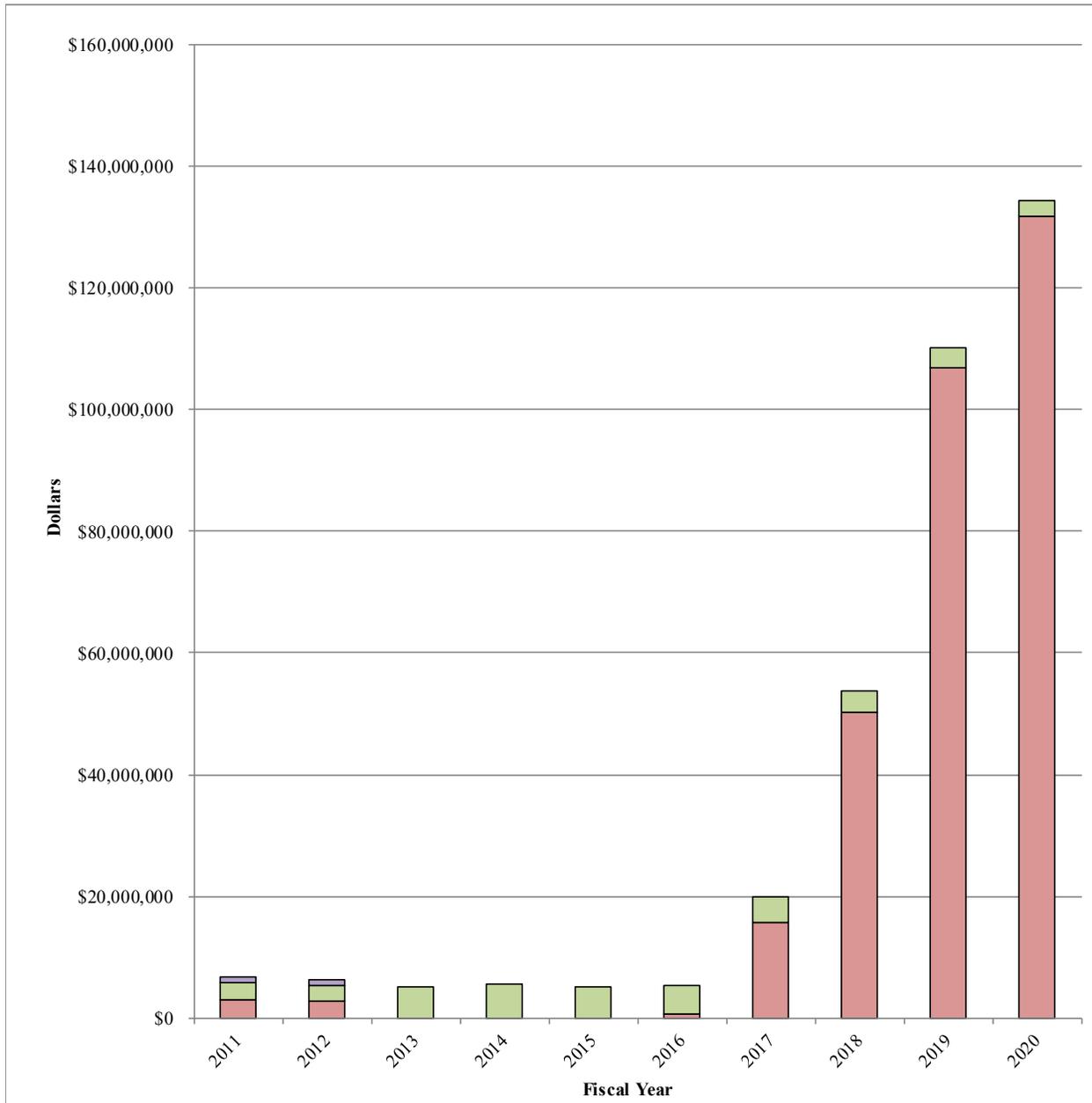
Customer	2020		Customer	2011	
	Water Consumed	Percentage of Total		Water Consumed	Percentage of Total
Sukut Construction, LLC	21,413	1.98%	Schools (12)	24,204	2.25%
Morongo Unified School District	12,616	1.16%	Mobile Home Parks (4)	24,093	2.24%
Morongo Unified School District	8,109	0.75%	Parks (6)	18,105	1.68%
Brehm2 Town of Yucca Valley	7,619	0.70%	Medical (4)	10,852	1.01%
Apache MHP Association	7,384	0.68%	Grocery (4)	10,210	0.95%
Caritas Corporation	6,483	0.60%	Hotels (3)	6,254	0.58%
Town of Yucca Valley	6,152	0.57%	Restraunts (5)	7,094	0.66%
County Club Mobile Home Estates	6,040	0.56%	Churches (4)	1,426	0.13%
Walmart Stores	5,755	0.53%			0.00%
Tri-Valley Little League	4,743	0.44%			0.00%
Total	86,314	7.97%	Total	102,238	9.49%
Total Water Consumed (HCF)	1,083,500	100.00%	Total Water Consumed (HCF)	1,076,856	100.00%

Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Schedule 8

Fiscal Year	Loans Payable	Bonds Payable	Notes Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2011	2,954,195	2,920,000	940,600	6,814,795	329.22	1.13%
2012	2,769,768	2,695,000	870,600	6,335,368	302.90	1.01%
2013	-	5,110,000	-	5,110,000	242.20	0.82%
2014	-	5,480,022	-	5,480,022	260.58	0.87%
2015	-	5,044,565	-	5,044,565	236.22	0.74%
2016	695,924	4,599,108	-	5,295,032	245.14	0.75%
2017	15,712,166	4,143,652	-	19,855,818	917.04	2.53%
2018	50,150,011	3,678,196	-	53,828,207	2,475.09	6.38%
2019	106,872,481	3,197,739	-	110,070,220	5,003.19	12.89%
2020	131,756,729	2,702,283	-	134,459,012	6,127.93	15.20%



Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Schedule 9

Fiscal Year	Net Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal ⁽²⁾	Interest	Total	
2011	9,743,136	(7,836,459)	1,906,677	462,251	260,680	722,931	2.64
2012	9,337,021	(7,153,393)	2,183,628	479,427	243,280	722,707	3.02
2013	10,770,374	(8,399,247)	2,371,127	610,297	14,416	624,713	3.80
2014	11,195,023	(5,604,675)	5,590,348	870,076	186,457	1,056,533	5.29
2015	10,643,212	(6,863,367)	3,779,845	879,816	138,008	1,017,824	3.71
2016	11,238,694	(7,512,365)	3,726,329	889,486	157,383	1,046,869	3.56
2017	11,017,402	(8,423,756)	2,593,646	900,518	145,800	1,046,318	2.48
2018	13,054,683	(10,922,202)	2,132,481	915,002	133,250	1,048,252	2.03
2019	16,020,347	(9,229,215)	6,791,132	930,186	116,650	1,046,836	6.49
2020	17,108,924	(10,524,979)	6,583,945	450,000	107,564	557,564	11.81

Source: Hi-Desert Water District Accounting Department

Notes:

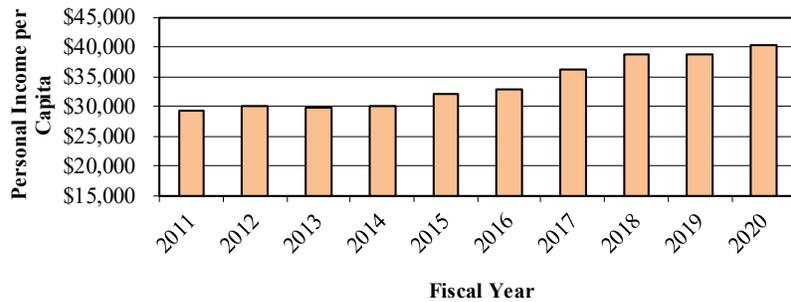
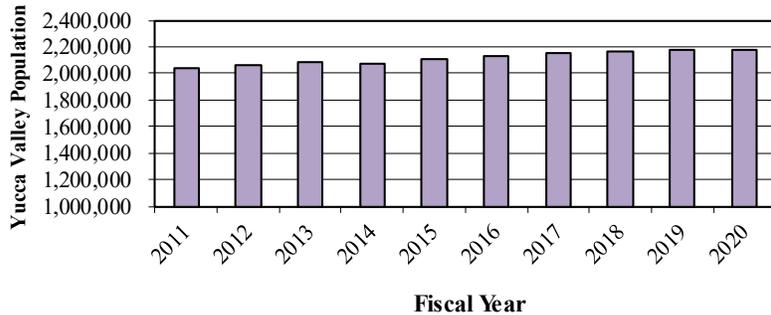
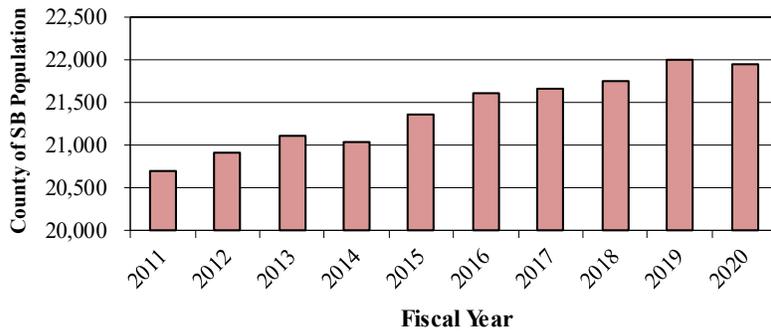
(1) Operating expenses exclude depreciation expense.

(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

Hi-Desert Water District Demographic and Economic Statistics Last Ten Fiscal Years

Schedule 10

Year	County of San Bernardino ⁽²⁾				
	Yucca Valley Population ⁽¹⁾	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2011	20,700	16.0%	2,035,210	59,411,850	29,192
2012	20,916	16.0%	2,063,919	61,913,442	29,998
2013	21,098	12.0%	2,081,313	61,677,629	29,634
2014	21,030	10.3%	2,076,274	62,259,000	29,990
2015	21,355	6.5%	2,104,291	67,488,821	32,072
2016	21,600	5.9%	2,128,133	69,689,971	32,747
2017	21,652	5.4%	2,147,933	77,823,908	36,232
2018	21,748	5.8%	2,160,256	83,852,497	38,816
2019	22,000	4.1%	2,171,603	84,292,942	38,816
2020	21,942	13.1%	2,180,085	87,892,307	40,316



Source: California Department of Finance and California Labor Market Info

Notes:

- (1) Separate data is not prepared for the District, therefore, the District has used data for the Town of Yucca Valley. A substantial portion of the District lies within the Town, and therefore, is a reasonable basis for determining the demographic and economic statistics of the District.
- (2) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District.

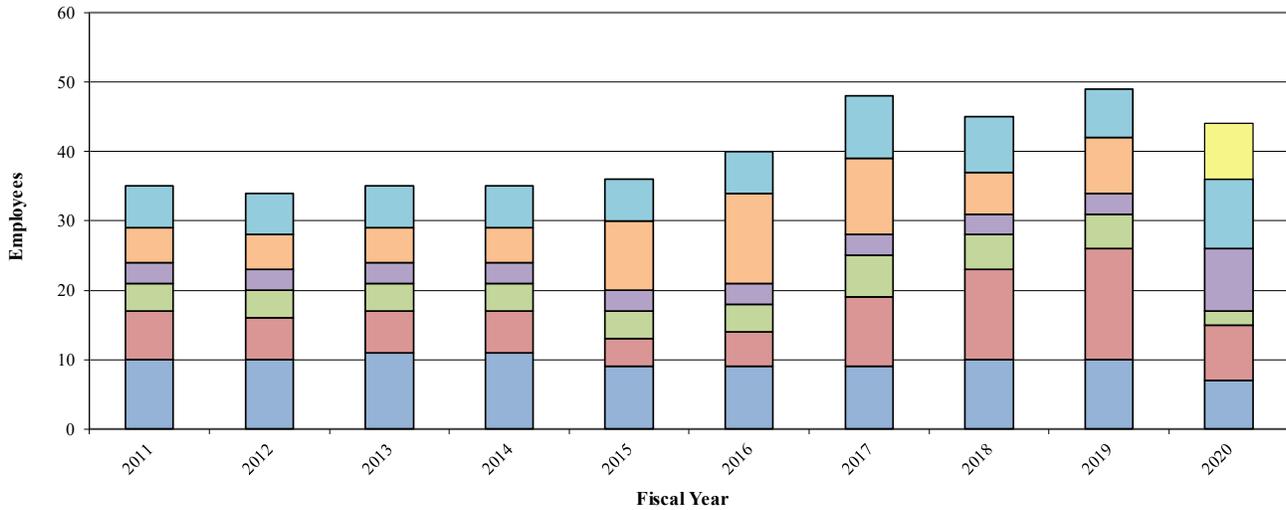
N/A - Data not available

Hi-Desert Water District Full Time Equivalent District Employees by Department Last Ten Fiscal Years

Schedule 11

Full-time Equivalent District Employees by Department

Fiscal Year	Production/Operations	Administration	Accounting	Customer Service/Billing	CRP	Construction & Maintenance	Wastewater	Total
2011	10	7	4	3	5	6	0	35
2012	10	6	4	3	5	6	0	34
2013	11	6	4	3	5	6	0	35
2014	11	6	4	3	5	6	0	35
2015	9	4	4	3	10	6	0	36
2016	9	5	4	3	13	6	0	40
2017	9	10	6	3	11	9	0	48
2018	10	13	5	3	6	8	0	45
2019	10	16	5	3	8	7	0	49
2020	7	8	2	9	0	10	8	44



Source: Hi-Desert Water District Departments

**Hi-Desert Water District
Operating and Capacity Indicators
Last Ten Fiscal Years**

Schedule 12

Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Storage Tanks	Storage Capacity (MG)	Groundwater Wells	Well Capacity (MGD)	Fire Hydrants
2011	57	296	16	13.14	13	9.2	1,801
2012	57	296	16	12.66	11	9.2	1,801
2013	57	296	16	12.66	13	9.2	1,801
2014	57	296	16	12.66	13	9.2	1,801
2015	57	308	16	13.18	12	9.2	2,042
2016	57	308	16	13.18	12	9.2	2,066
2017	57	308	16	13.18	12	9.2	2,066
2018	57	317	16	12.20	12	9.5	2,066
2019	57	317	16	12.20	12	9.5	2,066
2020	57	322	16	12.20	12	9.5	2,066

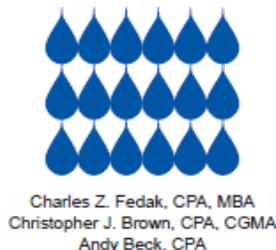
MG - Millions of Gallons

MGD - Millions of Gallons per Day

Source: Hi-Desert Water District Operations and Accounting Departments

Note: The Fire Hydrant total is inclusive of Hydrants and Jones heads.

Report on Internal Controls and Compliance



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**Independent Auditor's Report on Internal Controls Over Financial Reporting
and on Compliance and Other Matters Based on Audits of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Hi-Desert Water District
Yucca Valley, 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hi-Desert Water District (District) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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*.

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

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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
November 18, 2020