



Hi-Desert Water District
Yucca Valley, California
Annual Comprehensive Financial Report
For the Fiscal Year Ended June 30, 2023



Our Mission Statement

“To provide a safe and reliable water supply and Wastewater Reclamation System for 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> |
|---------------|----------------|-------------------------------|-------------------------|
| Sheldon Hough | President | Elected | 12/22 - 12/26 |
| Scot McKone | Vice President | Appointed | 09/20 - 12/24 |
| Roger Mayes | Director | Elected | 12/22 - 12/26 |
| Bob Stadum | Director | Elected | 12/20 - 12/24 |
| Sue Tsuda | Director | Elected | 12/22 - 12/26 |

**Hi-Desert Water District
Paul Peschel, General Manager
55439 29 Palms Highway
Yucca Valley, CA 92284-2502
(760) 365-8333 – www.hdwd.com**



Annual Comprehensive Financial Report

For the Fiscal Year Ended

June 30, 2023

(With Comparative Amounts as of June 30, 2022)

Hi-Desert Water District

**55439 29 Palms Highway
Yucca Valley, CA 92284-2503**

Prepared By:

Tanya Gruwell, Chief Financial Officer

HI-DESERT WATER DISTRICT
For the Fiscal Year Ended June 30, 2023
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Introductory Section





December 6, 2023

Board of Directors
Hi-Desert Water District

Introduction

We are pleased to present the Hi-Desert Water District's (District) Annual Comprehensive Financial Report (Report) for the fiscal year ending June 30, 2023. The purpose of this report is to provide the Board of Directors (Board), members of the public, and other interested parties with reliable financial information about the District.

District management assumes full responsibility for the completeness and reliability of the information contained in the Report, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the costs of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State Law and Bond covenants require an independent certified public accountant, selected by the Board, to audit the financial statements on an annual basis. Nigro & Nigro, PC has issued an unmodified (or clean) opinion on the District's financial statements for the fiscal year ending June 30, 2023. The Independent Auditor's Report is presented as the first component of the Financial Section of this Report.

Generally Accepted Accounting Principles (GAAP) require 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, which can be found immediately following the Independent Auditor's Report in the Financial Section and provides an overview, summary, and analysis of the financial statements. The MD&A is designed to complement the letter of transmittal and should be read in conjunction with it.

District Structure and Leadership

The 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 by division from within the District's service area. The Board 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, 2023, the District employed forty-eight (48) regular full-time employees who are organized into seven (7) departments.

District Services

As of June 30, 2023, the District provides water service to approximately 11,054 customers within its fifty-seven (57) square mile service area located in the southern Mojave Desert area of San Bernardino County (County). The District's service area encompasses the Town of Yucca Valley and portions of unincorporated areas of the County.

Residential customers represent approximately 91% of the District's customer base and consume approximately 82% of the annually produced water. The District has 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 2023 and 2022, the District purchased 2,343 and 1,620 acre-feet of State Water Project (SWP) water respectively, through Mojave Water Agency, the District's SWP wholesaler.

As of June 30, 2023, the District provides sewer service to approximately 4,214 connections for Benefit Area 1 (Phase 1), supported by seventy-seven (77) linear miles of mainline. This area extends from the wastewater treatment plant on the south side of 29 Palms Highway extending west through the primary corridor of the Town of Yucca Valley.

Economic Condition and Outlook

Economic conditions within the Town of Yucca Valley and the County remain stable and have improved in recent years, however at a slower rate than its neighboring Southern California communities.

According to census.gov, the median household income in the Town of Yucca Valley is about \$51,978. Median home values increased to about \$361,333, according to Zillow, down 6.4% in one year. There is a demand for vacation rental that has driven the upward value of homes and more recently the short-term vacation rental market has leveled off or slowed a little. This housing trend has over the last few years led to decreased affordability and housing availability for full-time residents in Yucca Valley. Population has actually decreased. 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 (Park), which attracts an estimated 3 million visitors per year. Yucca Valley now experiences more transient populations than it had historically.

Drought Conditions

According to the Pacific Institutes drought tracking website at californiadrought.org, the state is no longer experiencing a drought following the 2023 heavy rains and snowpack. Current cumulative precipitation in California's three key hydrologic regions this year was higher long-term average with California's snowpack conditions. According to the California Department of Water Resources, the total statewide snowpack was about 254% below average as of May 1, 2023.

Mojave Water Agency was allocated 100% of their State Water allocation, allowing the District continue to import water to maintain the groundwater basin. The District anticipates it will have the opportunity to continue banking water from Mojave Water Agency for the next fiscal year.

The drought emergency for the State was lifted.

The State Water Board has been working on regulations to implement the California Urban Water Use Objectives. The District has been actively engaged in the process and is largely compliant due to past water conservation efforts.

The District has strict water conservation rules in place to help ensure an appropriate and effective response to droughts. The District manages water supplies in the Warren Valley Groundwater Basin (Basin), which spans approximately 27 square miles and is beneath the Town of Yucca Valley and the surrounding area. The District imports State Water Project water through Mojave Water Agency to recharge water supplies. In addition, approximately 40% of the District's water use is recycled to the Basin through percolation. This water source allows the District to reduce water imports and the associated cost by an equal amount while significantly increasing dependability. It is critical that the District ensure a balance between the amount of water that comes into the Basin and the net amount used. Customers are routinely encouraged to conserve to help ensure imports are minimized and water is used efficiently. The District encourages a continuous reduction in water use to further help ensure the conservation of this valuable resource.

Major Initiatives

The activities of the Board and District staff are founded upon its Mission: “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 are:

1. Customer Satisfaction;
2. Financial Vitality;
3. Water Resource Adequacy;
4. Infrastructure Stability;
5. Operational Optimization;
6. Operational Resiliency;
7. Community Sustainability;
8. Stakeholder Understanding and Support
9. Board, Employee, and Leadership Development; and
10. Product Quality.

All programs and operations of the District are developed and carried out to ensure the highest level of service to its customers. This is reflected in the District’s motto, “Hi-Desert Water District—Serving You Today, Planning for Tomorrow”.

Accomplishments

In support of the District’s Mission, the following objectives were completed in Fiscal Year 2022/23:

1. Replacement of 19,863 linear feet of water main;
2. Replacement of approximately 756 water meters (this completes the whole District) 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. Imported 2,343 acre-feet (AF) of State Water Project water to recharge the Warren Valley Groundwater Basin;
4. Revised the Watermaster Rules & Regulations pertaining to Minimal Producers
5. Secured Proposition 1 Round 2 Integrated Regional Water Management (IRWM) Implementation Grant of \$670,000 for Front Western Hills Booster Station;
6. Added an additional treated water effluent percolation pond;
7. Constructed steel building at the water treatment plant;
8. Improved percolation at existing ponds with the additional seepage pits;
9. Issued a Request for Qualification (RFQ) for Phase 2 and 3 for Progressive Design Builder and Owners Representative;
10. Engaged Raftelis to complete a Cost of Service/Rate Study and Benchmarking and Organizational Assessment for both water and wastewater;
11. Completed application for Clean Water State Revolving Fund (CWSRF) funding for the Phase 2 and 3 project;
12. Submitted grant application for Reclaimed Water Project planning and design with the United States Bureau of Reclamation (USBR);
13. Opened a new High-Yield Savings account with Pacific Western Bank;
14. Awarded Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for FY 20/21
15. Updated the Conflict of Interest Code;

16. Updated Local Hazard Mitigation Plan;
17. Completed Springbrook/GeoViewer Integration for Electronic Field Service Work Order Program;
18. Sold Property on Concho Way;
19. Awarded the MWA community partnership grant for outreach and conservation efforts;
20. Engaged Koff and Associates to complete a Compensation Study;
21. Developed a Team Building Plan for Managers/Supervisors;

Compliance Training for Board Members, Managers/Supervisors, and Employees for Sexual Harassment Prevention Training and Ethics Training

Internal Control Structure

The District established, and continually reviews, its Internal Control Structure to ensure that assets are adequately safeguarded, and transactions are recorded in accordance with District policies and procedures. The Internal Control Structure also helps ensure adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. 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

On an annual basis, the District's Board approves and adopts a budget with operational and capital components, detailed at a department level, thereby integrating the financial planning process into the strategic planning process. A utility (or other enterprise government agency) is a self-supporting operation of a commercial or enterprise nature and the appropriate level of revenues and expenses is largely determined by the demand or service. Therefore, the annual budget should not be viewed as a rigid appropriation, but rather as a flexible, prioritized plan. The budget is prepared with a focus on objectives. With an objectives approach, annual objectives are delineated for each Strategic Plan goal. The cost to achieve these objectives and associated goals are then translated into dollars via the budget process. This process helps ensure each department is adequately financially resourced to effectuate the District Strategic Plan, Mission and Vision with the flexibility to adjust for fluctuations in demand for water services. Major capital project appropriations are carried forward from year to year until each project is completed.

Investment Policy

The Board has adopted an investment policy that conforms to State law, District ordinances and resolutions, prudent money management, and the "prudent person" standard. 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.

District Revenues - Water Rates and Sewer Maintenance Fees

The District sets water and wastewater rates to ensure sufficient funds are generated to operate and maintain the District's systems and maintain a reliable water supply.

For water services, the District uses a base rate which corresponds to the size of the water meter. The District's water rate structure consists of a 3-tier variable usage rate for consumption. The resident water rates are: tier 1 is at \$4.11 per unit up to the first 4 units, tier 2 is \$6.95 per unit between 5-11 units and tier 3 is \$7.91 per unit over 12 units which increases as water use increases. The fee structure has been effective in helping to ensure water conservation through reduced customer use by encouraging customers to manage their water use. The District receives revenue through potable water rates charges paid by customers for services. Water revenue is the primary component of the District's revenue. Water revenues are recorded in the District's water fund.

Sewer Maintenance Fees are costs associated with operating and maintaining the District's sewer system. Maintenance fees for non-residential properties are based upon the amount of water consumption. Residential properties are billed a flat rate and are collected through property taxes. Wastewater revenues are recorded in the District's wastewater fund.

Water Conservation Programs

Hi-Desert Water District has long been a leader in the effective implementation of water conservation measures. Since the early 1980s, the District has implemented tiered rates, outdoor water use restrictions, retrofit requirements and a water education programs. Very few homes have lawns and instead have adopted desert friendly plants. As a result, the District enjoys low water use compared to other desert cities.

In addition, Hi-Desert Water District serves as the Watermaster to manage the adjudicated Warren Valley Basin and manages the water resources through water imports, well drilling restrictions, careful tracking of water use, and required reporting to the court.

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* (Certificate) to the District for its Report for the fiscal year ending June 30, 2022. This was the 15th consecutive year the District has received this prestigious award. To be awarded a Certificate, a governmental entity must publish an easily readable and efficiently organized Report. The Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate is valid for a period of one year. We believe that our current Report continues to meet Certificate requirements. As such we are submitting the Report to GFOA to determine the District's eligibility for another Certificate.

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

Respectfully submitted,

Paul G. Peschel

Paul Peschel
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:



**Sheldon Hough
(President)**



**Scot McKone
(Vice-President)**



**Bob Stadum
(Director)**



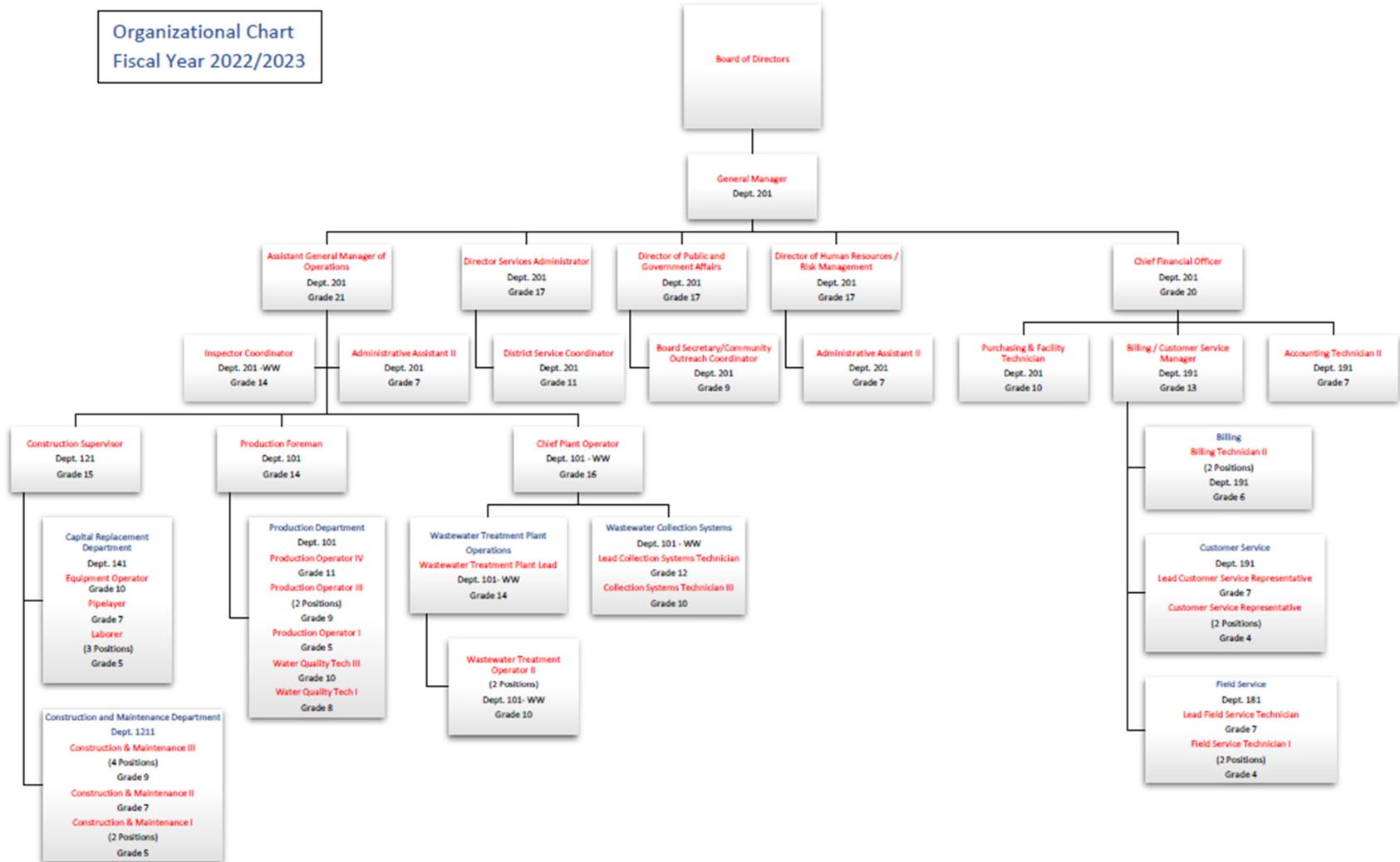
**Roger Mayes
(Director)**



**Sue Tsuda
(Director)**



Organizational Chart
Fiscal Year 2022/2023





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Hi-Desert Water District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

Financial Section





INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of the Hi-Desert Water District (District), which comprise the statement of net position as of June 30, 2023, and related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, Schedule of the District's Contributions to the Pension Plan, and Schedule of Changes in the District's Net OPEB Liability and Related Ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Schedule of Net Position – Combined and the Schedule of Revenues, Expenses and Changes in Net Position – Combined are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2022, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 6, 2023, 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
December 6, 2023

HI-DESERT WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

Management's Discussion and Analysis (MD&A) offers readers of Hi-Desert Water District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2023. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2023, the District's net position increased 2.34%, or \$2,130,416 from the prior year's net position of \$80,839,770 to \$82,970,186, as a result of the year's operations. In fiscal year 2022, the District's net position increased 1.69%, or \$1,343,720 from the prior year's net position of \$79,496,050 to \$80,839,770, as a result of the year's operations.
- In fiscal year 2023, operating revenues increased by 1.93%, or \$213,135 from \$11,033,674 to \$11,246,809, from the prior year, primarily due to increases in sewer service fees, which offset the decrease in water consumption sales. In fiscal year 2022, operating revenues increased by 14.1%, or \$1,362,626 from \$9,671,048 to \$11,033,674, from the prior year, primarily due to increases in sewer service fees.
- In fiscal year 2023, operating expenses before depreciation expense decreased by 2.26% or \$281,660 from \$12,436,814 to \$12,155,154, from the prior year, primarily due to decreases in general and administrative expenses. In fiscal year 2022, operating expenses before depreciation expense increased by 3.85% or \$461,446 from \$11,975,368 to \$12,436,814, from the prior year, primarily due to increases in costs for sewer operations and pumping and water treatment.

REQUIRED FINANCIAL STATEMENTS

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) and the obligations to creditors (liabilities). 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 revenue 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 net changes 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.

HI-DESERT WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

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 and liabilities using the accrual basis of accounting, which is similar to the accounting method 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.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, 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 are 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.

Condensed Statements of Net Position

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>Change</u> | <u>June 30, 2021</u> | <u>Change</u> |
|---------------------------------------|----------------------|----------------------|---------------------|----------------------|---------------------|
| Assets: | | | | | |
| Current assets | \$ 28,694,371 | \$ 28,496,769 | \$ 197,602 | \$ 27,319,065 | \$ 1,177,704 |
| Non-current assets | 6,456,117 | 5,037,542 | 1,418,575 | 2,215,941 | 2,821,601 |
| Capital assets, net | <u>192,711,020</u> | <u>196,029,099</u> | <u>(3,318,079)</u> | <u>200,652,355</u> | <u>(4,623,256)</u> |
| Total assets | <u>227,861,508</u> | <u>229,563,410</u> | <u>(1,701,902)</u> | <u>230,187,361</u> | <u>(623,951)</u> |
| Deferred outflows of resources | <u>3,636,742</u> | <u>2,147,221</u> | <u>1,489,521</u> | <u>2,197,966</u> | <u>(50,745)</u> |
| Liabilities: | | | | | |
| Current liabilities | 7,345,927 | 5,875,039 | 1,470,888 | 3,773,501 | 2,101,538 |
| Non-current liabilities | <u>139,819,664</u> | <u>140,987,948</u> | <u>(1,168,284)</u> | <u>148,986,430</u> | <u>(7,998,482)</u> |
| Total liabilities | <u>147,165,591</u> | <u>146,862,987</u> | <u>302,604</u> | <u>152,759,931</u> | <u>(5,896,944)</u> |
| Deferred inflows of resources | <u>1,362,473</u> | <u>4,007,874</u> | <u>(2,645,401)</u> | <u>129,346</u> | <u>3,878,528</u> |
| Net position: | | | | | |
| Net investment in capital assets | 65,608,276 | 64,313,662 | 1,294,614 | 63,660,666 | 652,996 |
| Restricted | 14,400,069 | 14,014,719 | 385,350 | 13,441,771 | 572,948 |
| Unrestricted (Deficit) | <u>2,961,841</u> | <u>2,511,389</u> | <u>450,452</u> | <u>2,393,613</u> | <u>117,776</u> |
| Total net position | <u>\$ 82,970,186</u> | <u>\$ 80,839,770</u> | <u>\$ 2,130,416</u> | <u>\$ 79,496,050</u> | <u>\$ 1,343,720</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 of the District exceeded liabilities and deferred inflows of resources by \$82,970,186 and \$80,839,770 as of June 30, 2023 and 2022, respectively.

HI-DESERT WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Statements of Net Position (continued)

By far the largest portion of the District's net position (Approximately 80% as of June 30, 2023 and 2022) 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 its customers; consequently, these assets are not available for future spending.

At the end of year 2023, the District showed a positive balance in its unrestricted net position of \$2,961,841 which may be utilized in future years.

At the end of year 2022, the District showed a positive balance in its unrestricted net position of \$2,511,389 which may be utilized in future years.

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

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>Change</u> | <u>June 30, 2021</u> | <u>Change</u> |
|--|----------------------|----------------------|---------------------|----------------------|---------------------|
| Operating revenues | \$ 11,246,809 | \$ 11,033,674 | \$ 213,135 | \$ 9,671,048 | \$ 1,362,626 |
| Operating expenses | <u>(12,155,154)</u> | <u>(12,436,814)</u> | <u>281,660</u> | <u>(11,975,368)</u> | <u>(461,446)</u> |
| Operating income before depreciation | (908,345) | (1,403,140) | 494,795 | (2,304,320) | 901,180 |
| Depreciation expense | <u>(6,254,468)</u> | <u>(6,270,826)</u> | <u>16,358</u> | <u>(4,133,315)</u> | <u>439,734</u> |
| Operating income | (7,162,813) | (7,673,966) | 511,153 | (6,437,635) | 461,446 |
| Non-operating revenues, net | <u>8,628,855</u> | <u>8,150,217</u> | <u>478,638</u> | <u>8,781,066</u> | <u>(630,849)</u> |
| Net income before capital contributions | 1,466,042 | 476,251 | 989,791 | 2,343,431 | (1,867,180) |
| Capital contributions | <u>664,374</u> | <u>867,469</u> | <u>(203,095)</u> | <u>797,237</u> | <u>70,232</u> |
| Change in net position | <u>2,130,416</u> | <u>1,343,720</u> | <u>786,696</u> | <u>3,140,668</u> | <u>(1,796,948)</u> |
| Net position: | | | | | |
| Beginning of year | <u>80,839,770</u> | <u>79,496,050</u> | <u>1,343,720</u> | <u>76,355,382</u> | <u>3,140,668</u> |
| End of year | <u>\$ 82,970,186</u> | <u>\$ 80,839,770</u> | <u>\$ 2,130,416</u> | <u>\$ 79,496,050</u> | <u>\$ 1,343,720</u> |

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District:

In fiscal year 2023, the District's net position increased 2.34%, or \$2,130,416 from the prior year's net position of \$80,839,770 to \$82,970,186, as a result of the year's operations.

In fiscal year 2022, the District's net position increased 1.69%, or \$1,343,720 from the prior year's net position of \$79,496,050 to \$80,839,770, as a result of the year's operations.

HI-DESERT WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Revenues

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>Increase (Decrease)</u> | <u>June 30, 2021</u> | <u>Increase (Decrease)</u> |
|-------------------------------------|----------------------|----------------------|--------------------------------|----------------------|--------------------------------|
| Operating revenues: | | | | | |
| Water consumption sales | \$ 6,170,645 | \$ 6,573,607 | \$ (402,962) | \$ 6,530,140 | \$ 43,467 |
| Readiness-to-serve fees | 1,739,502 | 1,685,454 | 54,048 | 1,637,183 | 48,271 |
| Sewer service fees | 3,033,112 | 2,483,718 | 549,394 | 1,400,055 | 1,083,663 |
| Other operating revenues | 303,550 | 290,895 | 12,655 | 103,670 | 187,225 |
| Total operating revenues | <u>11,246,809</u> | <u>11,033,674</u> | <u>213,135</u> | <u>9,671,048</u> | <u>1,362,626</u> |
| Non-operating revenues: | | | | | |
| Property taxes | 2,332,471 | 2,078,812 | 253,659 | 1,918,559 | 160,253 |
| Measure Z sales tax revenue | 2,865,331 | 2,864,569 | 762 | 2,433,370 | 431,199 |
| Assessment revenue | 2,642,068 | 3,768,340 | (1,126,272) | 4,077,377 | (309,037) |
| Investment earnings | 312,132 | (23,657) | 335,789 | 48,432 | (72,089) |
| Capital surcharge | 1,713,589 | 1,647,953 | 65,636 | 1,580,727 | 67,226 |
| Other non-operating revenues | 137,288 | 145,523 | (8,235) | 170,732 | (25,209) |
| Total non-operating revenues | <u>10,002,879</u> | <u>10,481,540</u> | <u>(478,661)</u> | <u>10,229,197</u> | <u>252,343</u> |
| Capital contributions: | | | | | |
| Capital grants | 222,000 | 100,366 | 121,634 | 54,835 | 45,531 |
| Meter sales and installations | 442,374 | 767,103 | (324,729) | 742,402 | 24,701 |
| Total capital contributions | <u>664,374</u> | <u>867,469</u> | <u>(203,095)</u> | <u>797,237</u> | <u>70,232</u> |
| Total revenues | <u>\$ 21,914,062</u> | <u>\$ 22,382,683</u> | <u>\$ (468,621)</u> | <u>\$ 20,697,482</u> | <u>\$ 1,685,201</u> |

In fiscal year 2023, operating revenues increased by 1.93%, or \$213,135 from \$11,033,674 to \$11,246,809, from the prior year, primarily due to increases in sewer service fees, which offset the decrease in water consumption sales.

In fiscal year 2022, operating revenues increased by 14.1%, or \$1,362,626 from \$9,671,048 to \$11,033,674, from the prior year, primarily due to increases in sewer service fees. Also, non-operating revenues increased by 2.41%, or \$252,343 from \$10,229,197 to \$10,481,540 due to an increase in property and sales tax revenue.

HI-DESERT WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Expenses

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>Increase (Decrease)</u> | <u>June 30, 2021</u> | <u>Increase (Decrease)</u> |
|---------------------------------------|----------------------|----------------------|--------------------------------|----------------------|--------------------------------|
| Operating expenses: | | | | | |
| Source of supply | \$ 1,459,689 | \$ 1,072,440 | \$ 387,249 | \$ 2,096,895 | (1,024,455) |
| Pumping and water treatment | 3,977,170 | 4,085,579 | (108,409) | 3,499,648 | 585,931 |
| Transmission and distribution | 1,656,071 | 1,842,406 | (186,335) | 1,622,916 | 219,490 |
| Sewer operations | 930,303 | 889,331 | 40,972 | 379,262 | 510,069 |
| Customer accounts | 327,841 | 274,162 | 53,679 | 257,937 | 16,225 |
| General and administrative | 3,804,080 | 4,272,896 | (468,816) | 4,118,710 | 154,186 |
| Total operating expenses | <u>12,155,154</u> | <u>12,436,814</u> | <u>(281,660)</u> | <u>11,975,368</u> | <u>461,446</u> |
| Depreciation expense | 6,254,468 | 6,270,826 | (16,358) | 4,133,315 | 2,137,511 |
| Non-operating expenses: | | | | | |
| Lease payment – Morongo basin project | - | 169,049 | (169,049) | - | 169,049 |
| Interest expense | 1,359,372 | 1,428,235 | (68,863) | 1,434,177 | (5,942) |
| Other non-operating expenses | 14,652 | 734,039 | (719,387) | 13,954 | 720,085 |
| Total non-operating expenses | <u>1,374,024</u> | <u>2,331,323</u> | <u>(957,299)</u> | <u>1,448,131</u> | <u>883,192</u> |
| Total expenses | <u>\$ 19,783,646</u> | <u>\$ 21,038,963</u> | <u>\$ (1,255,317)</u> | <u>\$ 17,556,814</u> | <u>\$ 3,482,149</u> |

In fiscal year 2023, operating expenses before depreciation expense decreased by 2.26% or \$281,660 from \$12,436,814 to \$12,155,154, from the prior year, primarily due to decreases in general and administrative expenses.

In fiscal year 2022, operating expenses before depreciation expense increased by 3.85% or \$461,446 from \$11,975,368 to \$12,436,814, from the prior year, primarily due to increases in costs for sewer operations and pumping and water treatment.

Capital Assets

| | <u>Balance June 30, 2023</u> | <u>Balance June 30, 2022</u> | <u>Balance June 30, 2021</u> |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Capital assets: | | | |
| Non-depreciable assets | \$ 3,902,644 | \$ 3,737,239 | \$ 3,570,080 |
| Depreciable assets | 240,320,384 | 237,549,400 | 239,987,161 |
| Accumulated depreciation | <u>(51,512,008)</u> | <u>(45,257,540)</u> | <u>(42,904,886)</u> |
| Total capital assets, net | <u>\$ 192,711,020</u> | <u>\$ 196,029,099</u> | <u>\$ 200,652,355</u> |

At the end of fiscal year 2023 and 2022, the District's investment in capital assets amounted to \$192,711,020 and \$196,029,099 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$2,936,389 and \$1,647,571, respectively, for various projects and equipment. See Note 5 for further information.

HI-DESERT WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Debt Administration

The long-term debt of the District is summarized below:

| Long-term debt: | Balance | Balance | Balance |
|-------------------------|-----------------------|-----------------------|-----------------------|
| | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>June 30, 2021</u> |
| Loans and bonds payable | <u>\$ 128,264,726</u> | <u>\$ 132,877,419</u> | <u>\$ 136,991,689</u> |

In fiscal year 2023, long-term debt decreased by a total of \$4,612,693. Principal payments were \$4,567,236 and amortization of the debt premiums amounted to \$45,457.

In fiscal year 2022, long-term debt decreased by a total of \$4,114,270. Principal payments were \$5,230,795 and amortization of the debt premiums amounted to \$45,457, while new debt proceeds amounted to \$516,745.

See Notes 7, 8 and 9 for further information.

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.

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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.

HI-DESERT WATER DISTRICT

Statements of Net Position

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 10,869,832 | \$ 10,556,201 |
| Restricted – cash and cash equivalents (Note 2) | 14,400,069 | 14,014,719 |
| Accrued interest receivable | 9,549 | 13,422 |
| Accounts receivable – water and sewer services, net (Note 3) | 1,648,296 | 1,754,057 |
| Accounts receivable – other | 15,600 | 2,589 |
| Taxes and assessments receivable | 882,295 | 907,114 |
| Inventory – materials and supplies | 688,521 | 1,096,916 |
| Prepaid expenses and deposits | <u>180,209</u> | <u>151,751</u> |
| Total current assets | <u>28,694,371</u> | <u>28,496,769</u> |
| Non-current assets: | | |
| Notes receivable (Note 4) | 6,456,117 | 5,037,542 |
| Capital assets – not being depreciated (Note 5) | 3,902,644 | 3,737,239 |
| Capital assets – being depreciated, net (Note 5) | <u>188,808,376</u> | <u>192,291,860</u> |
| Total non-current assets | <u>199,167,137</u> | <u>201,066,641</u> |
| Total assets | <u>227,861,508</u> | <u>229,563,410</u> |
| Deferred outflows of resources: | | |
| Deferred amounts related to net OPEB liability (Note 10) | 455,595 | 741,483 |
| Deferred amounts related to net pension liability (Note 11) | <u>3,181,147</u> | <u>1,405,738</u> |
| Total deferred outflows of resources | <u>3,636,742</u> | <u>2,147,221</u> |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 918,051 | 711,772 |
| Deposits and unearned revenue | 5,781,891 | 4,542,381 |
| Accrued interest payable | 17,417 | 25,583 |
| Long-term liabilities – due within one year: | | |
| Compensated absences (Note 6) | 118,568 | 105,303 |
| Bonds payable (Note 7) | <u>510,000</u> | <u>490,000</u> |
| Total current liabilities | <u>7,345,927</u> | <u>5,875,039</u> |
| Non-current liabilities: | | |
| Long-term liabilities – due in more than one year: | | |
| Compensated absences (Note 6) | 355,705 | 315,908 |
| Bonds payable (Note 7) | 625,912 | 1,181,369 |
| Loans payable – State revolving fund (Note 8) | 125,966,832 | 130,044,068 |
| Loans payable – Expanded use loan (Note 9) | 1,161,982 | 1,161,982 |
| Net OPEB liability (Note 10) | 4,798,065 | 4,793,116 |
| Net pension liability (Note 11) | <u>6,911,168</u> | <u>3,491,505</u> |
| Total non-current liabilities | <u>139,819,664</u> | <u>140,987,948</u> |
| Total liabilities | <u>147,165,591</u> | <u>146,862,987</u> |
| Deferred inflows of resources: | | |
| Deferred amounts related to net OPEB liability (Note 10) | 650,426 | 863,221 |
| Deferred amounts related to net pension liability (Note 11) | <u>712,047</u> | <u>3,144,653</u> |
| Total deferred inflows of resources | <u>1,362,473</u> | <u>4,007,874</u> |
| Net position: (Note 12) | | |
| Net investment in capital assets | 65,608,276 | 64,313,662 |
| Restricted for sewer capital projects | 14,400,069 | 14,014,719 |
| Unrestricted | <u>2,961,841</u> | <u>2,511,389</u> |
| Total net position | <u>\$ 82,970,186</u> | <u>\$ 80,839,770</u> |

HI-DESERT WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Operating revenues: | | |
| Water consumption sales | \$ 6,170,645 | \$ 6,573,607 |
| Readiness-to-serve fees | 1,739,502 | 1,685,454 |
| Sewer service fees | 3,033,112 | 2,483,718 |
| Other operating revenues | 303,550 | 290,895 |
| Total operating revenues | <u>11,246,809</u> | <u>11,033,674</u> |
| Operating expenses: | | |
| Source of supply | 1,459,689 | 1,072,440 |
| Pumping and water treatment | 3,977,170 | 4,085,579 |
| Transmission and distribution | 1,656,071 | 1,842,406 |
| Sewer operations | 930,303 | 889,331 |
| Customer accounts | 327,841 | 274,162 |
| General and administrative | 3,804,080 | 4,272,896 |
| Total operating expenses | <u>12,155,154</u> | <u>12,436,814</u> |
| Operating loss before depreciation | (908,345) | (1,403,140) |
| Depreciation expense | <u>(6,254,468)</u> | <u>(6,270,826)</u> |
| Operating loss | <u>(7,162,813)</u> | <u>(7,673,966)</u> |
| Non-operating revenues(expenses): | | |
| Property taxes | 2,332,471 | 2,078,812 |
| Measure Z sales tax revenue (Note 14) | 2,865,331 | 2,864,569 |
| Assessment revenue (Note 14) | 2,642,068 | 3,768,340 |
| Investment earnings | 312,132 | (23,657) |
| Capital surcharge | 1,713,589 | 1,647,953 |
| Lease payment - Morongo basin project | - | (169,049) |
| Interest expense | (1,359,372) | (1,428,235) |
| Other non-operating revenues | 137,288 | 145,523 |
| Other non-operating expenses | <u>(14,652)</u> | <u>(734,039)</u> |
| Total non-operating revenues, net | <u>8,628,855</u> | <u>8,150,217</u> |
| Net income before capital contributions | <u>1,466,042</u> | <u>476,251</u> |
| Capital contributions: | | |
| Capital grants | 222,000 | 100,366 |
| Meter sales and installations | <u>442,374</u> | <u>767,103</u> |
| Total capital contributions | <u>664,374</u> | <u>867,469</u> |
| Change in net position | 2,130,416 | 1,343,720 |
| Net position: | | |
| Beginning of year | <u>80,839,770</u> | <u>79,496,050</u> |
| End of year | <u>\$ 82,970,186</u> | <u>\$ 80,839,770</u> |

HI-DESERT WATER DISTRICT

Statements of Cash Flows

For the Fiscal Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers and others | \$ 11,297,782 | \$ 10,630,080 |
| Cash paid to employees for salaries and wages | (4,856,741) | (4,433,828) |
| Cash paid to vendors and suppliers for materials and services | <u>(7,384,097)</u> | <u>(8,356,903)</u> |
| Net cash used in operating activities | <u>(943,056)</u> | <u>(2,160,651)</u> |
| Cash flows from non-capital financing activities: | | |
| Proceeds from property taxes | 2,334,299 | 2,065,350 |
| Proceeds from Measure Z sales tax | 2,859,063 | 2,800,480 |
| Proceeds from assessment revenue | <u>2,671,327</u> | <u>3,774,998</u> |
| Net cash provided by non-capital financing activities | <u>7,864,689</u> | <u>8,640,828</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (2,936,389) | (1,647,570) |
| Proceeds from capital grants | 222,000 | 117,670 |
| Proceeds from meter sales and installation | 442,374 | 767,103 |
| Proceeds from expanded use loan | - | 516,745 |
| Principal paid on long-term debt | (4,567,236) | (5,230,795) |
| Interest paid on long-term debt | (1,412,995) | (1,462,501) |
| Proceeds from capital surcharge | 1,713,589 | 1,647,953 |
| Lease payment – Morongo basin project | <u>-</u> | <u>(169,049)</u> |
| Net cash used in capital and related financing activities | <u>(6,538,657)</u> | <u>(5,460,444)</u> |
| Cash flows from investing activities: | | |
| Investment earnings | <u>316,005</u> | <u>(34,094)</u> |
| Net cash provided by (used in) investing activities | <u>316,005</u> | <u>(34,094)</u> |
| Net increase in cash and cash equivalents | 698,981 | 985,639 |
| Cash and cash equivalents: | | |
| Beginning of year | <u>24,570,920</u> | <u>23,585,281</u> |
| End of year | <u>\$ 25,269,901</u> | <u>\$ 24,570,920</u> |
| Reconciliation of cash and cash equivalents: | | |
| Cash and cash equivalents | \$ 10,869,832 | \$ 10,556,201 |
| Restricted – cash and cash equivalents | <u>14,400,069</u> | <u>14,014,719</u> |
| Total cash and cash equivalents | <u>\$ 25,269,901</u> | <u>\$ 24,570,920</u> |

HI-DESERT WATER DISTRICT*Statements of Cash Flows (continued)**For the Fiscal Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)*

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|-----------------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (7,162,813) | \$ (7,673,966) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 6,254,468 | 6,270,826 |
| Increase in allowance for doubtful accounts | 28,618 | 28,618 |
| Other non-operating revenues | 137,288 | 145,523 |
| Other non-operating expenses | (14,652) | (734,039) |
| Change in assets - (increase)decrease: | | |
| Accounts receivable, net | 77,143 | (66,016) |
| Other receivables | (13,011) | 9,269 |
| Inventory - materials and supplies | 408,395 | (781,372) |
| Prepaid expenses | (28,458) | 695,050 |
| Change in deferred outflows of resources - (increase)decrease | | |
| Deferred amounts related to net OPEB liability | 285,888 | (25,369) |
| Deferred amounts related to net pension liability | (1,775,409) | 76,114 |
| Change in liabilities - increase(decrease): | | |
| Accounts payable and accrued expenses | 206,279 | (247,070) |
| Deposits and unearned revenues | (179,065) | (520,988) |
| Compensated absences | 53,062 | 52,862 |
| Net OPEB liability | 4,949 | (675,633) |
| Net pension liability | 3,419,663 | (2,592,988) |
| Change in deferred inflows of resources - increase(decrease) | | |
| Deferred amounts related to net OPEB liability | (212,795) | 835,451 |
| Deferred amounts related to net pension liability | (2,432,606) | 3,043,077 |
| Total adjustments | <u>6,219,757</u> | <u>5,513,315</u> |
| Net cash used in operating activities | <u>\$ (943,056)</u> | <u>\$ (2,160,651)</u> |
| Noncash investing, capital and financing charges | | |
| Amortization of bond premium | <u>\$ 45,457</u> | <u>\$ 45,457</u> |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

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 Presentation, Basis of Accounting

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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

The District reports its activities as an enterprise fund, Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

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 pronouncements in the current year:

Government Accounting Standards Board Statement No. 98

In October 2023, the GASB issued Statement No. 98 – *The Annual Comprehensive Financial Report*. The objective of this Statement is to establish the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

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

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

2. Investments (Continued)

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indentures, external constraints, or laws and regulations of other governments.

4. Receivables and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management’s assessment of the collectability of existing accounts.

5. Prepays

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

6. Inventory – Materials and Supplies

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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

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 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

9. 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.

10. Pensions

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

- Valuation Date June 30, 2021
- Measurement Date June 30, 2022
- Measurement Period July 1, 2021 to June 30, 2022

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

11. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments which are reported at cost. The following timeframes are used for OPEB reporting:

Valuation Date June 30, 2022

Measurement Date June 30, 2023

Measurement Period July 1, 2022 to June 30, 2023

12. Property Taxes

The San Bernardino County Assessor's Office assesses all real and personal property within the County each year. The San Bernardino County Tax Collector's Office bills and collects the District's share of property taxes. The San Bernardino County Auditor-Controller's Office remits current property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIII A 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 San Bernardino County Tax Collector's Office, 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 November 10

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

13. Net Position

Net position is classified into three separate components: net investment in capital assets, restricted, and unrestricted. These classifications focus on the accessibility of the underlying assets, and are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **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 (restricted or unrestricted depending on the constraints on the unexpended resources).
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

E. Use of Estimates

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

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents were classified in the accompanying financial statements as follows:

| <u>Description</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 10,869,832 | \$ 10,556,201 |
| Restricted – cash and cash equivalents | 14,400,069 | 14,014,719 |
| Total cash and cash equivalents | \$ 25,269,901 | \$ 24,570,920 |

Cash and cash equivalents consisted of the following:

| <u>Description</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|--|----------------------|----------------------|
| Petty cash | \$ 1,800 | \$ 1,800 |
| Demand deposits held with financial institutions | 24,486,702 | 17,492,320 |
| Local Agency Investment Fund (LAIF) | 781,399 | 7,076,800 |
| Total cash and cash equivalents | \$ 25,269,901 | \$ 24,570,920 |

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 |
| Negotiable Certificates of Deposit (Negotiable CD) | 5-years | 30% | None |
| Commercial Paper | 270 days | 25% | 10% |
| California Local Agency Investment Fund (LAIF) | N/A | None | None |
| State and local bonds, notes and warrants | N/A | None | None |
| Money Market Mutual Funds | N/A | 20% | None |

Demand Deposits with Financial Institutions

At June 30, 2023, the carrying amount of the District's demand deposits were \$24,486,702 and the financial institution's balances were \$30,185,190. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2023, the District's deposits were covered by the Federal Deposit Insurance Corporation insurance limits or collateralized as required by California law.

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. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

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 transactions 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 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF for verbal authorization.

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.

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.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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 5% and 29% as of June 30, 2023 and 2022, 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.

NOTE 3 – ACCOUNTS RECEIVABLE WATER AND SEWER SERVICES, NET

The balance at June 30, 2023 and 2022 consists of the following;

| <u>Description</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|----------------------|----------------------|
| Accounts receivable – water and sewer services | \$ 1,700,827 | \$ 1,847,317 |
| Allowance for doubtful accounts | (52,531) | (93,260) |
| Accounts receivable – water and sewer, net | \$ 1,648,296 | \$ 1,754,057 |

NOTE 4 – NOTES RECEIVABLE

The balance at June 30, 2023 and 2022 consists of the following;

| <u>Description</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|-----------------------------------|----------------------|----------------------|
| Unearned revenues | \$ 5,312,723 | \$ 4,049,589 |
| Loans payable – expanded use loan | 1,161,982 | 1,161,982 |
| Future reimbursement credit | (18,588) | (174,029) |
| Total notes receivable | \$ 6,456,117 | \$ 5,037,542 |

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.

Total unearned revenues amounted to \$5,312,723 and \$4,049,589 as of June 30, 2023 and 2022, respectively. Loans, payable amounted to \$1,161,982 and \$1,161,982 as of June 30, 2023 and 2022, respectively. Of this amount, \$18,588 and \$174,029 as of June 30, 2023 and 2022, respectively, 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.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2023, were as follows:

| Description | Balance July 1, 2022 | Additions | Deletions/ Transfers | Balance June 30, 2023 |
|---------------------------------------|-------------------------|---------------------|-------------------------|--------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 1,130,089 | \$ - | \$ (10,000) | \$ 1,120,089 |
| Easements | 1,563,374 | - | - | 1,563,374 |
| Construction-in-process | 1,043,776 | 2,946,389 | (2,770,984) | 1,219,181 |
| Total non-depreciable assets | 3,737,239 | 2,946,389 | (2,780,984) | 3,902,644 |
| Depreciable assets: | | | | |
| Transmission and distribution mains | 40,012,422 | 1,888,787 | - | 41,901,209 |
| Collection system - mains | 115,919,883 | - | - | 115,919,883 |
| Wastewater facility | 38,619,752 | 159,767 | - | 38,779,519 |
| Reservoirs and tanks | 7,446,708 | - | - | 7,446,708 |
| Wells | 7,069,534 | 331,002 | - | 7,400,536 |
| Recharge ponds | 1,986,168 | - | - | 1,986,168 |
| 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 | 1,059,275 | - | - | 1,059,275 |
| Pump station and equipment | 8,170,819 | - | - | 8,170,819 |
| Boosters | 2,198,150 | - | - | 2,198,150 |
| Hydrants | 847,105 | - | - | 847,105 |
| Blending facility | 792,739 | 21,364 | - | 814,103 |
| Buildings and structures | 1,076,918 | - | - | 1,076,918 |
| Office furniture and equipment | 551,974 | 37,177 | - | 589,151 |
| Tools and equipment | 426,643 | 8,517 | - | 435,160 |
| Vehicles | 4,700,064 | 324,370 | - | 5,024,434 |
| Total depreciable assets | 237,549,400 | 2,770,984 | - | 240,320,384 |
| Accumulated depreciation: | | | | |
| Transmission and distribution mains | (15,290,109) | (903,333) | - | (16,193,442) |
| Collection system - mains | (4,346,996) | (2,897,997) | - | (7,244,993) |
| Wastewater facility | (1,450,182) | (969,847) | - | (2,420,029) |
| Reservoirs and tanks | (4,397,482) | (157,814) | - | (4,555,296) |
| Wells | (5,180,763) | (214,200) | - | (5,394,963) |
| Recharge ponds | (1,350,571) | (47,092) | - | (1,397,663) |
| Recharge site #3 | (1,014,405) | (61,479) | - | (1,075,884) |
| Nitrate removal facility | (1,322,581) | (68,234) | - | (1,390,815) |
| Reach II pipeline | (976,497) | (36,849) | - | (1,013,346) |
| Pumps | (1,050,898) | (2,377) | - | (1,053,275) |
| Pump station and equipment | (612,048) | (408,541) | - | (1,020,589) |
| Boosters | (1,134,655) | (88,596) | - | (1,223,251) |
| Hydrants | (769,142) | (9,756) | - | (778,898) |
| Blending facility | (351,341) | (22,481) | - | (373,822) |
| Buildings and structures | (810,427) | (34,613) | - | (845,040) |
| Office furniture and equipment | (547,428) | (11,059) | - | (558,487) |
| Tools and equipment | (415,575) | (5,460) | - | (421,035) |
| Vehicles | (4,236,440) | (314,740) | - | (4,551,180) |
| Total accumulated depreciation | (45,257,540) | (6,254,468) | - | (51,512,008) |
| Total depreciable assets, net | 192,291,860 | (3,483,484) | - | 188,808,376 |
| Total capital assets, net | \$ 196,029,099 | \$ (537,095) | \$ (2,780,984) | \$ 192,711,020 |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (Continued)

Changes in capital assets for the fiscal year ended June 30, 2022, were as follows:

| Description | Balance July 1, 2021 | Additions | Deletions/ Transfers | Balance June 30, 2022 |
|---------------------------------------|-------------------------|-----------------------|-------------------------|--------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 1,130,089 | \$ - | \$ - | \$ 1,130,089 |
| Easements | 1,563,374 | - | - | 1,563,374 |
| Construction-in-process | 876,617 | 1,647,571 | (1,480,412) | 1,043,776 |
| Total non-depreciable assets | 3,570,080 | 1,647,571 | (1,480,412) | 3,737,239 |
| Depreciable assets: | | | | |
| Transmission and distribution mains | 38,814,621 | 1,197,801 | - | 40,012,422 |
| Collection system - mains | 115,919,883 | - | - | 115,919,883 |
| Wastewater facility | 38,619,752 | - | - | 38,619,752 |
| Reservoirs and tanks | 7,446,708 | - | - | 7,446,708 |
| Wells | 7,235,277 | 209,169 | (374,912) | 7,069,534 |
| Meter service installations | 1,201,496 | - | (1,201,496) | - |
| Recharge ponds | 2,000,846 | - | (14,678) | 1,986,168 |
| 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 | - | (7,919) | 1,059,275 |
| Pump station and equipment | 8,155,543 | 15,276 | - | 8,170,819 |
| Boosters | 2,253,605 | - | (55,455) | 2,198,150 |
| Hydrants | 847,105 | - | - | 847,105 |
| Blending facility | 792,739 | - | - | 792,739 |
| Buildings and structures | 1,210,515 | 34,570 | (168,167) | 1,076,918 |
| Office furniture and equipment | 1,147,214 | - | (595,240) | 551,974 |
| Tools and equipment | 585,705 | - | (159,062) | 426,643 |
| Vehicles | 6,017,712 | 23,596 | (1,341,244) | 4,700,064 |
| Total depreciable assets | 239,987,161 | 1,480,412 | (3,918,173) | 237,549,400 |
| Accumulated depreciation: | | | | |
| Transmission and distribution mains | (14,406,177) | (883,932) | - | (15,290,109) |
| Collection system - mains | (1,448,998) | (2,897,998) | - | (4,346,996) |
| Wastewater facility | (483,394) | (966,788) | - | (1,450,182) |
| Reservoirs and tanks | (4,239,664) | (157,818) | - | (4,397,482) |
| Wells | (5,353,303) | (202,372) | 374,912 | (5,180,763) |
| Meter service installations | (1,201,496) | - | 1,201,496 | - |
| Recharge ponds | (1,318,157) | (47,092) | 14,678 | (1,350,571) |
| Recharge site #3 | (952,926) | (61,479) | - | (1,014,405) |
| Nitrate removal facility | (1,254,347) | (68,234) | - | (1,322,581) |
| Reach II pipeline | (939,648) | (36,849) | - | (976,497) |
| Pumps | (1,056,440) | (2,377) | 7,919 | (1,050,898) |
| Pump station and equipment | (203,889) | (408,159) | - | (612,048) |
| Boosters | (1,101,508) | (88,602) | 55,455 | (1,134,655) |
| Hydrants | (757,678) | (11,464) | - | (769,142) |
| Blending facility | (329,928) | (21,413) | - | (351,341) |
| Buildings and structures | (945,025) | (33,569) | 168,167 | (810,427) |
| Office furniture and equipment | (1,131,529) | (11,139) | 595,240 | (547,428) |
| Tools and equipment | (568,005) | (6,632) | 159,062 | (415,575) |
| Vehicles | (5,212,774) | (364,910) | 1,341,244 | (4,236,440) |
| Total accumulated depreciation | (42,904,886) | (6,270,827) | 3,918,173 | (45,257,540) |
| Total depreciable assets, net | 197,082,275 | (4,790,415) | - | 192,291,860 |
| Total capital assets, net | \$ 200,652,355 | \$ (3,142,844) | \$ (1,480,412) | \$ 196,029,099 |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (Continued)

Construction-in-process as of June 30 consisted of the following projects:

| <u>Description</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|----------------------|----------------------|
| Wastewater treatment facility and collection system - Design Phase II | \$ 1,093,083 | \$ 945,344 |
| Steel building - Wastewater Plant | - | 98,432 |
| Steel building - OWS | 95,015 | - |
| Various small projects under \$50,000 | 31,083 | - |
| Total construction-in process, net | \$ 1,219,181 | \$ 1,043,776 |

NOTE 6 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the years ended June 30, 2023 and 2022, were as follows:

| <u>Balance</u> <u>July 1, 2022</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2023</u> | <u>Due Within</u> <u>One Year</u> | <u>Due in More</u> <u>Than One Year</u> |
|---------------------------------------|------------------|------------------|--|--------------------------------------|--|
| \$ 421,211 | \$ 450,809 | \$ (397,747) | \$ 474,273 | \$ 118,568 | \$ 355,705 |

| <u>Balance</u> <u>July 1, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2022</u> | <u>Due Within</u> <u>One Year</u> | <u>Due in More</u> <u>Than One Year</u> |
|---------------------------------------|------------------|------------------|--|--------------------------------------|--|
| \$ 368,349 | \$ 414,567 | \$ (361,705) | \$ 421,211 | \$ 105,303 | \$ 315,908 |

NOTE 7 – BONDS PAYABLE

Changes in bonds payable for the year ended June 30, 2023, were as follows:

| | <u>Balance</u> <u>July 1, 2022</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2023</u> | <u>Due Within</u> <u>One Year</u> | <u>Due in More</u> <u>Than One Year</u> |
|---------------|---------------------------------------|------------------|---------------------|--|--------------------------------------|--|
| Bonds payable | \$ 1,535,000 | \$ - | \$ (490,000) | \$ 1,045,000 | \$ 510,000 | \$ 535,000 |
| Premium | 136,369 | - | (45,457) | 90,912 | - | 90,912 |
| Total | \$ 1,671,369 | \$ - | \$ (535,457) | \$ 1,135,912 | \$ 510,000 | \$ 625,912 |

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 Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 7 – BONDS PAYABLE (Continued)

2013 Revenue Refunding Bonds (Continued)

Annual debt service requirements are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|--------------|
| 2024 | \$ 510,000 | \$ 52,250 | \$ 562,250 |
| 2025 | 535,000 | 26,750 | 561,750 |
| Total | 1,045,000 | \$ 79,000 | \$ 1,124,000 |
| Current | <u>(510,000)</u> | | |
| Long-term | <u>\$ 535,000</u> | | |

Annual premium amortization are as follows:

| <u>Fiscal Year</u> | <u>Amortized Interest</u> | <u>Balance</u> |
|--------------------|---------------------------|----------------|
| 2024 | \$ 45,456 | \$ 45,456 |
| 2025 | 45,456 | - |
| Total | <u>\$ 90,912</u> | |

NOTE 8 – LOAN PAYABLE – STATE REVOLVING FUND

Changes in loans payable for the year ended June 30, 2023, were as follows:

| <u>Balance July 1, 2022</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2023</u> | <u>Due Within One Year</u> | <u>Due in More Than One Year</u> |
|-----------------------------|------------------|------------------|------------------------------|----------------------------|----------------------------------|
| \$ 130,044,068 | \$ - | \$ (4,077,236) | \$ 125,966,832 | \$ - | \$ 125,966,832 |

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, 2023 and 2022, amounted to \$125,966,832 and \$130,044,068, respectively.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 9 – LOAN PAYABLE – EXPANDED USE LOAN

Changes in loans payable for the year ended June 30, 2023, were as follows:

| <u>Balance</u> <u>July 1, 2022</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2023</u> | <u>Due Within</u> <u>One Year</u> | <u>Due in More</u> <u>Than One Year</u> |
|---------------------------------------|------------------|------------------|--|--------------------------------------|--|
| \$ 1,161,982 | \$ - | \$ - | \$ 1,161,982 | \$ - | \$ 1,161,982 |

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.

The loan repayment term shall commence after all disbursements have been paid. The balance of the loan as of June 30, 2023 and 2022, amounted to \$1,161,982 and \$1,161,982, respectively.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Summary

The following balances on the statement of net position will be addressed in this footnote as follows:

| Description | 2023 | 2022 |
|--|------------|------------|
| OPEB related deferred outflows | \$ 455,595 | \$ 741,483 |
| Net other post-employment benefits liability | 4,798,065 | 4,793,116 |
| OPEB related deferred inflows | 650,426 | 863,221 |

A. General Information about the OPEB Plan

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.

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 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.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

A. General Information about the OPEB Plan (Continued)

Contributions

Benefit provisions and contribution requirements are established and may be amended through agreements and memorandums of understanding between the District and its employees. The plan does not require employee contributions. Administrative costs of this plan are financed by the District. For fiscal year ended June 30, 2023, the measurement period, the District's contributions totaled \$164,395. The contribution amount consists of \$150,539 in paid medical premiums and \$13,856 in an implied rate subsidy.

Accounting for the Plan

The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

B. Net OPEB Liability

The District's total OPEB liability was measured as of June 30, 2023 and was determined by an actuarial valuation as of June 30, 2022. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-------------------------------|--|
| Valuation Date | June 30, 2022 |
| Measurement Date | June 30, 2023 |
| Actuarial Cost Method | Entry age normal, level percentage of payroll |
| Asset Valuation Method | Market value of assets as of the measurement date |
| Actuarial Assumptions: | |
| Discount Rate | 3.65% |
| Long-Term Expected | |
| Rate of Return on Investments | 3.65% |
| Inflation | 2.50% |
| Payroll increases | 2.75% |
| Healthcare Trend Rates | 4.00% Long-term medical trend |
| Mortality | CalPERS 2017 Study |
| Disability | Not valued |
| Retirement | 2017 CalPERS Public Agency Miscellaneous experience study; |
| | 2.5%@55 for Miscellaneous Employees |
| Percent Married | 80% of future retirees would enroll a spouse |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

B. Net OPEB Liability (Continued)

Employee Covered By Benefit Terms

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

| | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|
| Inactive plan members or beneficiaries currently receiving benefit payments | 21 | 21 |
| Inactive plan members entitled to but not yet receiving benefit payments | - | - |
| Active plan members | <u>15</u> | <u>15</u> |
| Total | <u><u>36</u></u> | <u><u>36</u></u> |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.65%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

C. Changes in the Net OPEB Liability

The changes in the total OPEB liability are as follows:

| | <u>Increase (Decrease)</u> | | |
|--|----------------------------|-----------------------|----------------------------|
| | <u>Total</u> | <u>Plan Fiduciary</u> | <u>Net</u> |
| | <u>OPEB Liability</u> | <u>Net Position</u> | <u>OPEB Liability</u> |
| Balance at June 30, 2022 (Measurement date June 30, 2022) | <u>\$ 4,793,116</u> | <u>\$ -</u> | <u>\$ 4,793,116</u> |
| Changes for the year: | | | |
| Service cost | 78,630 | - | 78,630 |
| Interest | 168,158 | - | 168,158 |
| Differences in experience | - | - | - |
| Changes in assumption | (77,444) | - | (77,444) |
| Employer contributions | - | 164,395 | (164,395) |
| Benefit payments | <u>(164,395)</u> | <u>(164,395)</u> | <u>-</u> |
| Net changes | <u>4,949</u> | <u>-</u> | <u>4,949</u> |
| Balance at June 30, 2023 (Measurement date June 30, 2023) | <u><u>\$ 4,798,065</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 4,798,065</u></u> |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

C. Changes in the Net OPEB Liability (Continued)

Changes of Assumptions

In fiscal year 2022-23, the interest rate assumption changed from 3.54% to 3.65%.

Change of Benefit Terms

In fiscal year 2022-23, the measurement period, there were no changes to the benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

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

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 (2.65%) or 1 percentage point higher (4.65%) than the current discount rate:

| | 1% Decrease 2.65% | Discount Rate 3.65% | 1% Increase 4.65% |
|--------------------|----------------------|------------------------|----------------------|
| Net OPEB Liability | \$ 5,551,945 | \$ 4,798,065 | \$ 4,192,089 |

Sensitivity of the Total OPEB Liability to Changes in Medical Trend Rates

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 medical trend rates that are 1-percentage point lower:

| | Healthcare Cost | | |
|--|-----------------|--------------|--------------|
| | 3.00% | 4.00% | 5.00% |
| | \$ 4,080,153 | \$ 4,798,065 | \$ 5,701,041 |

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the District recognized OPEB expense of \$242,437. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| Account Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes in assumptions | \$ 292,556 | \$ (638,992) |
| Differences between expected and actual experience | 163,039 | (11,434) |
| Total Deferred Outflows/(Inflows) of Resources | \$ 455,595 | \$ (650,426) |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

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

| <u>Amortization Period</u> <u>Fiscal Year Ended June 30</u> | <u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u> |
|--|---|
| 2024 | \$ (4,351) |
| 2025 | (133,113) |
| 2026 | (53,683) |
| 2027 | (3,684) |
| Total | \$ (194,831) |

NOTE 11 – PENSION PLAN

Summary

The following balances on statement of net position will be addressed in this footnote as follows:

| <u>Description</u> | <u>2023</u> | <u>2022</u> |
|-----------------------------------|--------------|--------------|
| Pension related deferred outflows | \$ 3,181,147 | \$ 1,405,738 |
| Net pension liability | 6,911,168 | 3,491,505 |
| Pension related deferred inflows | 712,047 | 3,144,653 |

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

A. General Information about the Pension Plan

The Plan

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

| | <u>Miscellaneous Plans</u> | | |
|---|---------------------------------|---|--------------------------------|
| | <u>Classic</u> <u>Tier 1</u> | <u>Classic</u> <u>Tier 2</u> | <u>PEPRA</u> <u>Tier 3</u> |
| Hire date | 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 |
| Benefit vesting schedule | 5-years of service | 5-years of service | 5-years of service |
| Benefits payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 67 & up | 52 - 67 & up | 52 - 67 & up |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.1% to 2.4% | 1.0% to 2.0% |
| Required member contribution rates | 8.000% | 7.000% | 7.250% |
| Required employer contribution rates – FY 2022 | 12.990% | 9.300% | 7.730% |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 11 – PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

Plan Description

The Plan is an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the Plan's June 30, 2021 and June 30, 2020 Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website.

At June 30, 2022 measurement date, the following members were covered by the benefit terms:

| Plan Members | Miscellaneous Plans | | | Total |
|------------------------------------|---------------------|----------------|--------------|------------|
| | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 3 | |
| Active members | 18 | 5 | 23 | 46 |
| Transferred and terminated members | 18 | 2 | 28 | 48 |
| Retired members and beneficiaries | 37 | - | - | 37 |
| Total plan members | 73 | 7 | 51 | 131 |

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 nonindustrial disability benefits after five 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.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Contributions for the year ended June 30, 2023, were as follows:

| Contribution Type | Miscellaneous Plans | | | Total |
|--------------------------|---------------------|----------------|--------------|--------------|
| | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 2 | |
| Contributions – employer | \$ 841,573 | \$ 55,612 | \$ 125,094 | \$ 1,022,279 |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 11 - PENSION PLAN (Continued)

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

Proportionate Share of Net Pension Liability and Pension Expense

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following table shows the District's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2023:

| <u>Plan Type and Balance Descriptions</u> | <u>Plan Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Change in Plan Net Pension Liability</u> |
|--|---|--|---|
| CalPERS – Miscellaneous Plan: | | | |
| Balance as of June 30, 2021 (Measurement Date) | \$ 24,193,095 | \$ 20,701,591 | \$ 3,491,504 |
| Balance as of June 30, 2022 (Measurement Date) | \$ 27,575,989 | \$ 20,664,821 | \$ 6,911,168 |
| Change in Plan Net Pension Liability | \$ 3,382,894 | \$ (36,770) | \$ 3,419,664 |

Proportionate Share of Net Pension Liability and Pension Expense

The District's proportionate share percentage of the net pension liability for the June 30, 2022, measurement date was as follows:

| | <u>Percentage Share of Risk Pool</u> | | <u>Change Increase/ (Decrease)</u> |
|---|---|---|--|
| | <u>Fiscal Year Ending June 30, 2023</u> | <u>Fiscal Year Ending June 30, 2022</u> | |
| Measurement Date | <u>June 30, 2022</u> | <u>June 30, 2021</u> | |
| Percentage of Risk Pool Net Pension Liability | 0.147699% | 0.183879% | -0.036180% |
| Percentage of Plan Net Pension Liability | 0.059833% | 0.064558% | -0.004725% |

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 11 – PENSION PLAN (Continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (continued)

For the year ended June 30, 2023, the District recognized pension expense of \$233,927. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Account Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Pension contributions made after the measurement date | \$ 1,022,279 | \$ - |
| Difference between actual and proportionate share of employer contributions | 43,348 | (116,330) |
| Adjustment due to differences in proportions | 2,594 | (502,762) |
| Differences between expected and actual experience | 138,790 | (92,955) |
| Differences between projected and actual earnings on pension plan investments | 1,265,942 | - |
| Changes in assumptions | 708,194 | - |
| Total Deferred Outflows/(Inflows) of Resources | <u>\$ 3,181,147</u> | <u>\$ (712,047)</u> |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.8 years.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 11 – PENSION PLAN (Continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (continued)

An amount of \$1,022,279 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

| <u>Amortization Period</u> <u>Fiscal Year Ended June 30</u> | <u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u> |
|--|---|
| 2024 | \$ 319,254 |
| 2025 | 241,282 |
| 2026 | 111,991 |
| 2027 | 774,294 |
| Total | <u>\$ 1,446,821</u> |

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021 (valuation date) total pension liability. The June 30, 2022, total pension liability was based on the following actuarial methods and assumptions:

| | |
|----------------------------------|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirement of GASB Statement No. 68 |
| Actuarial Assumptions: | |
| Discount Rate | 6.90% |
| Inflation | 2.30% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table | Derived using CalPERS' Membership Data for all Funds. |
| Post Retirement Benefit Increase | Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter |

Long-term Expected Rate of Return

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 11 – PENSION PLAN (Continued)

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

Long-term Expected Rate of Return (Continued)

The table below reflects the long-term expected real rate of return by asset class.

| Asset Class | Assumed Asset Allocation | Real Return ^{1,2} |
|----------------------------------|--------------------------|----------------------------|
| Global Equity - Cap-weighted | 30.0% | 4.54% |
| Global Equity - Non-Cap-weighted | 12.0% | 3.84% |
| Private Equity | 13.0% | 7.28% |
| Treasury | 5.0% | 0.27% |
| Mortgage-backed Securities | 5.0% | 0.50% |
| Investment Grade Corporates | 10.0% | 1.56% |
| High Yield | 5.0% | 2.27% |
| Emerging Market Debt | 5.0% | 2.48% |
| Private Debt | 5.0% | 3.57% |
| Real Estate | 15.0% | 3.21% |
| Leverage | -5.0% | -0.59% |
| | 100.0% | |

¹ An expected inflation of 2.3% is used for this period.

² Figures are based on the 2021 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Subsequent Events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 11 – PENSION PLAN (Continued)

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

Subsequent Events (Continued)

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

| Plan Type | Plan's Net Pension Liability/(Asset) | | | | |
|------------------------------|--------------------------------------|------------------|-----------------|-------|------------|
| | Discount Rate - | Current Discount | Discount Rate + | | |
| | 1% | Rate 6.90% | 1% | | |
| CalPERS – Miscellaneous Plan | 5.90% | 6,685,741 | \$ 3,491,505 | 7.90% | \$ 850,875 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications. (See the Required Information Section for further information).

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 12 – NET POSITION

Calculation of the District’s net position as of June 30, was as follows:

| Description | June 30, 2023 | June 30, 2022 |
|---|----------------------|----------------------|
| Net investment in capital assets: | | |
| Capital assets – not being depreciated | \$ 3,902,644 | \$ 3,737,239 |
| Capital assets, net – being depreciated | 188,808,376 | 192,291,860 |
| Bonds payable – current portion | (510,000) | (490,000) |
| Bonds payable, net – non-current portion | (625,912) | (1,181,369) |
| Loan payable – State revolving fund | <u>(125,966,832)</u> | <u>(130,044,068)</u> |
| Total net investment in capital assets | <u>65,608,276</u> | <u>64,313,662</u> |
| Restricted net position: | | |
| Assessment District 2014-1 | 11,206,892 | 11,097,358 |
| Measure Z sales tax | 2,859,163 | 2,800,580 |
| Expanded use loan | <u>334,014</u> | <u>116,781</u> |
| Total restricted net position | <u>14,400,069</u> | <u>14,014,719</u> |
| Unrestricted net position: | | |
| Prepaid net position: | | |
| Materials and supplies inventory | 688,521 | 1,096,916 |
| Prepaid expenses and other deposits | <u>180,209</u> | <u>151,751</u> |
| Total non-spendable net position | <u>868,730</u> | <u>1,248,667</u> |
| Spendable net position: | | |
| Unrestricted | <u>2,093,111</u> | <u>1,262,722</u> |
| Total spendable net position | <u>2,093,111</u> | <u>1,262,722</u> |
| Total unrestricted net position | <u>2,961,841</u> | <u>2,511,389</u> |
| Total net position | <u>\$ 82,970,186</u> | <u>\$ 80,839,770</u> |

NOTE 13 – MORONGO BASIN 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. The District received no surcharge revenue for the fiscal years ended June 30, 2023 and 2022.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 13 – MORONGO BASIN SURCHARGE (Continued)

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, 2021, the District recorded a prepaid asset on the statement of net position in the amount of \$720,409 related to the Morongo Basin Project and Surcharge. The \$720,409 prepaid asset was recognized as an expense in fiscal year 2022.

NOTE 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.

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, 2023 and 2022, the District recognized assessment revenues totaling \$2,642,068 and \$3,768,340, 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, 2023 and 2022, the District recognized Measure Z sales tax revenues totaling \$2,865,331 and \$2,864,569, respectively.

NOTE 15 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Programs. 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.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 15 – DEFERRED COMPENSATION SAVINGS PLAN (Continued)

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 accompanying financial statements.

NOTE 16 – RISK MANAGEMENT POOL

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Further information about the Insurance Authority is as follows:

| | |
|---|---|
| A. Entity | ACWA-JPIA |
| B. Purpose | To pool member contributions and realize the advantages of self-insurance |
| C. Participants | As of September 30, 2022 – 396 member districts |
| D. Governing board | Nine representatives employed by members |
| E. Condensed financial information | September 30, 2022 |
| Audit signed | February 7, 2023 |
| Statement of financial position: | |
| Total assets | <u>Sept 30, 2022</u> \$ 246,615,214 |
| Deferred outflows | <u>6,108,562</u> |
| Total liabilities | <u>137,126,606</u> |
| Deferred inflows | <u>2,813,249</u> |
| Net position | <u>\$ 112,783,921</u> |
| Statement of revenues, expenses and changes in net position: | |
| Total revenues | \$ 175,619,417 |
| Total expenses | <u>(212,646,028)</u> |
| Change in net position | (37,026,611) |
| Beginning – net position | <u>149,810,532</u> |
| Ending – net position | <u>\$ 112,783,921</u> |
| F. Member agencies share of year-end financial position | Not Calculated |

The District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$500,000,000 (total insurable value of \$48,405,017). The District has a \$2,500 deductible for buildings, personal property and fixed equipment, a \$25,000/\$50,000 deductible for accidental mechanical breakdown, a \$1,000 deductible for mobile equipment, and a \$500 deductible for licensed vehicles.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 16 – RISK MANAGEMENT POOL (Continued)

General Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage in layers up to \$60,000,000. This program does not have a deductible.

Auto Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage in layers up to \$60,000,000. This program does not have a deductible.
Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage in layers up to \$60,000,000.

Cyber Liability - The Insurance Authority has purchased insurance coverage of \$3,000,000 per occurrence/\$5,000,000 aggregate. This program does not have a deductible.

Crime - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Public Official Bond - The District has purchased a \$200,000 bond to cover the general manager's faithful performance of duty.

Workers' Compensation - The Insurance Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased up to the statutory limit for workers' compensation coverage. The Insurance Authority is self-insurance up to \$2,000,000 and has purchased excess insurance coverage of \$2,000,000 for employer's liability coverage.

Underground Storage Tank Pollution Liability - The Insurance Authority is self-insured up to \$500,000 per occurrence and has purchased excess coverage of \$3,000,000. The District has a \$10,000 deductible.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims expended. The nature and amount of these adjustments cannot be estimated and are charged to expenses as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

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 years ending June 30, 2023, 2022, and 2019. 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, 2023, 2022, and 2021.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

HI-DESERT WATER DISTRICT

Notes to Financial Statements

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such an audit could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. The 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.

NOTE 18 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 6, 2023, the date on which the financial statements were available to be issued.

Required Supplementary Information



HI-DESERT WATER DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability For the Year Ended June 30, 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

| Measurement Date | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability |
|------------------|--|---|----------------------------|--|---|
| June 30, 2014 | 0.05575% | \$ 3,468,735 | \$ 2,048,638 | 169.32% | 79.40% |
| June 30, 2015 | 0.06170% | 4,234,766 | 2,255,616 | 187.74% | 78.40% |
| June 30, 2016 | 0.05784% | 5,005,060 | 2,408,114 | 207.84% | 74.06% |
| June 30, 2017 | 0.05685% | 5,638,193 | 2,423,895 | 232.61% | 73.31% |
| June 30, 2018 | 0.05646% | 5,440,236 | 2,881,177 | 188.82% | 75.26% |
| June 30, 2019 | 0.05626% | 5,764,723 | 3,027,048 | 190.44% | 72.66% |
| June 30, 2020 | 0.05592% | 6,084,493 | 3,943,145 | 154.31% | 73.12% |
| June 30, 2021 | 0.06456% | 3,941,505 | 3,420,591 | 115.23% | 85.57% |
| June 30, 2022 | 0.05983% | 6,911,168 | 3,621,367 | 190.84% | 74.94% |

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 and June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020:

There were no significant changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021:

There were no significant changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022:

There were no significant changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023:

The discount rate was reduced from 7.15% to 6.90% and the inflation rate from 2.50% to 2.30%.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only nine years are shown.

HI-DESERT WATER DISTRICT

Schedule of the District's Contributions to the Defined Benefit Pension Plan For the Year Ended June 30, 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

| Fiscal Year | Actuarially Determined Contribution | Contributions in Relation to the | | | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---------------|---|---|--|--------------|-----------------|---|
| | | Actuarially Determined Contribution | Contribution Deficiency (Excess) | | | |
| June 30, 2015 | \$ 457,832 | \$ (549,865) | \$ (92,033) | \$ 2,255,616 | 20.30% | |
| June 30, 2016 | 228,861 | (522,794) | (293,933) | 2,408,114 | 9.50% | |
| June 30, 2017 | 637,178 | (576,531) | 60,647 | 2,423,895 | 26.29% | |
| June 30, 2018 | 637,178 | (624,870) | 12,308 | 2,881,177 | 22.12% | |
| June 30, 2019 | 714,019 | (714,019) | - | 3,027,048 | 23.59% | |
| June 30, 2020 | 813,975 | (813,975) | - | 3,943,145 | 20.64% | |
| June 30, 2021 | 874,463 | (874,463) | - | 3,420,591 | 25.56% | |
| June 30, 2022 | 912,485 | (912,485) | - | 3,621,367 | 25.20% | |
| June 30, 2023 | 1,022,279 | (1,022,279) | - | 4,176,475 | 24.48% | |

Notes to Schedule:

| Fiscal Year | Valuation Date | Actuarial Cost Method | Asset Valuation Method | Inflation | Investment Rate of Return |
|---------------|----------------|--------------------------|---------------------------|-----------|------------------------------|
| June 30, 2015 | June 30, 2013 | Entry Age | Fair Value | 2.75% | 7.65% |
| June 30, 2016 | June 30, 2014 | Entry Age | Fair Value | 2.75% | 7.65% |
| June 30, 2017 | June 30, 2015 | Entry Age | Fair Value | 2.75% | 7.65% |
| June 30, 2018 | June 30, 2016 | Entry Age | Fair Value | 2.75% | 7.15% |
| June 30, 2019 | June 30, 2017 | Entry Age | Fair Value | 2.50% | 7.15% |
| June 30, 2020 | June 30, 2018 | Entry Age | Fair Value | 2.50% | 7.15% |
| June 30, 2021 | June 30, 2019 | Entry Age | Fair Value | 2.50% | 7.15% |
| June 30, 2022 | June 30, 2020 | Entry Age | Fair Value | 2.50% | 7.15% |
| June 30, 2023 | June 30, 2021 | Entry Age | Fair Value | 2.30% | 6.90% |

| | |
|----------------------------------|--|
| Amortization Method | Level percentage of payroll, closed |
| Salary Increases | Depending on age, service, and type of employment |
| Investment Rate of Return | Net of pension plan investment expense, including inflation |
| Retirement Age | 50 years (2%@55 and 2%@60), 52 years (2%@62) |
| Mortality | Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board. |

*Fiscal year 2015 was the first measurement date year of implementation; therefore, only nine years are shown.

HI-DESERT WATER DISTRICT

Schedule of Changes in the District's Net OPEB Liability and Related Ratios For the Year Ended June 30, 2023

| Fiscal Year Ended | Last Ten Fiscal Years* | | | | | |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 |
| Measurement Date | June 30, 2023 | June 30, 2022 | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 |
| Total OPEB liability: | | | | | | |
| Service cost | \$ 78,630 | \$ 147,146 | \$ 141,462 | \$ 37,237 | \$ 34,220 | \$ 33,304 |
| Interest | 168,158 | 118,149 | 116,978 | 152,102 | 143,199 | 153,369 |
| Changes of assumptions | (77,444) | (1,107,250) | 35,977 | 917,094 | 215,221 | - |
| Differences between expected and actual experience | - | 311,257 | - | (44,106) | - | - |
| Changes of benefit terms | - | - | - | - | - | - |
| Benefit payments | (164,395) | (144,935) | (144,238) | (141,817) | (137,737) | (126,688) |
| Net change in total OPEB liability | 4,949 | (675,633) | 150,179 | 920,510 | 254,903 | 59,985 |
| Total OPEB liability - beginning | 4,793,116 | 5,468,749 | 5,318,570 | 4,398,060 | 4,143,157 | 4,083,172 |
| District's net OPEB liability | \$ 4,798,065 | \$ 4,793,116 | \$ 5,468,749 | \$ 5,318,570 | \$ 4,398,060 | \$ 4,143,157 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Covered payroll | 1,817,134 | 1,817,134 | 1,835,684 | 1,786,554 | 2,938,882 | 2,797,259 |
| District's net OPEB liability as a percentage of covered payroll | 264.05% | 263.77% | 297.91% | 297.70% | 149.65% | 148.11% |

Notes to Schedule:

Benefit Changes:

Measurement Date June 30, 2018 – There were no changes in benefits
 Measurement Date June 30, 2019 – Coverage expanded to spouses for future retirees hired on or after July 1, 2009 if they have 25 years of service, effective fiscal year ending June 30, 2018
 Measurement Date June 30, 2020 – There were no changes in benefits
 Measurement Date June 30, 2021 – There were no changes in benefits
 Measurement Date June 30, 2022 – There were no changes in benefits
 Measurement Date June 30, 2023 – There were no changes in benefits

Changes in Assumptions:

Measurement Date June 30, 2018 – Average per capita claims cost was updated to reflect actual 2017 premiums, health care cost trend rate was updated to reflect 2018 industry survey data, and mortality table was updated to reflect most recent CalPERS studies.
 Measurement Date June 30, 2019 – There were no changes in benefits
 Measurement Date June 30, 2020 – Census data from the plans participants was updated, which decreased the total OPEB liability by \$262,190.
 Measurement Date June 30, 2021 – There were no changes in benefits
 Measurement Date June 30, 2022 – The discount rate increased to 3.54% and inflation rate decreased to 2.50%.
 Measurement Date June 30, 2023 – The discount rate increased to 3.65%.

* Fiscal year 2018 was the first year of implementation; therefore, only six years are shown.

Supplementary Information



HI-DESERT WATER DISTRICT

Statements of Net Position – Combined – Internal Funds

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | Water | Sewer | 2023 | Water | Sewer | 2022 |
|--|----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 10,173,081 | \$ 696,751 | \$ 10,869,832 | \$ 9,812,968 | \$ 743,233 | \$ 10,556,201 |
| Restricted – cash and cash equivalents | - | 14,400,069 | 14,400,069 | - | 14,014,719 | 14,014,719 |
| Accrued interest receivable | 9,549 | - | 9,549 | 13,422 | - | 13,422 |
| Accounts receivable – water and sewer services, net | 1,579,536 | 68,760 | 1,648,296 | 1,631,714 | 122,343 | 1,754,057 |
| Accounts receivable – other | 14,055 | 1,545 | 15,600 | 1,589 | 1,000 | 2,589 |
| Taxes and assessments receivable | 60,004 | 822,291 | 882,295 | 61,833 | 845,281 | 907,114 |
| Inventory – materials and supplies | 688,521 | - | 688,521 | 1,096,916 | - | 1,096,916 |
| Prepaid expenses and other deposits | 167,724 | 12,485 | 180,209 | 151,751 | - | 151,751 |
| Total current assets | 12,692,470 | 16,001,901 | 28,694,371 | 12,770,193 | 15,726,576 | 28,496,769 |
| Non-current assets: | | | | | | |
| Notes receivable | - | 6,456,117 | 6,456,117 | - | 5,037,542 | 5,037,542 |
| Internal balances | 7,759,414 | (7,759,414) | - | 7,515,796 | (7,515,796) | - |
| Capital assets – not being depreciated | 1,259,521 | 2,643,123 | 3,902,644 | 1,144,654 | 2,592,585 | 3,737,239 |
| Capital assets – being depreciated, net | 36,497,739 | 152,310,637 | 188,808,376 | 35,750,129 | 156,541,731 | 192,291,860 |
| Total non-current assets | 45,516,674 | 153,650,463 | 199,167,137 | 44,410,579 | 156,656,062 | 201,066,641 |
| Total assets | 58,209,144 | 169,652,364 | 227,861,508 | 57,180,772 | 172,382,638 | 229,563,410 |
| Deferred outflows of resources: | | | | | | |
| Deferred amounts related to net OPEB liability | 455,595 | - | 455,595 | 741,483 | - | 741,483 |
| Deferred amounts related to net pension liability | 3,181,147 | - | 3,181,147 | 1,405,738 | - | 1,405,738 |
| Total deferred outflows of resources | 3,636,742 | - | 3,636,742 | 2,147,221 | - | 2,147,221 |
| Total assets and deferred outflows of resources | \$ 61,845,886 | \$ 169,652,364 | \$ 231,498,250 | \$ 59,327,993 | \$ 172,382,638 | \$ 231,710,631 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ 824,253 | \$ 93,798 | \$ 918,051 | \$ 638,289 | \$ 73,483 | \$ 711,772 |
| Deposits and unearned revenues | 469,168 | 5,312,723 | 5,781,891 | 492,792 | 4,049,589 | 4,542,381 |
| Accrued interest payable | 17,417 | - | 17,417 | 25,583 | - | 25,583 |
| Long-term liabilities – due within one year: | | | | | | |
| Compensated absences | 102,739 | 15,829 | 118,568 | 90,711 | 14,592 | 105,303 |
| Bonds payable | 510,000 | - | 510,000 | 490,000 | - | 490,000 |
| Total current liabilities | 1,923,577 | 5,422,350 | 7,345,927 | 1,737,375 | 4,137,664 | 5,875,039 |
| Non-current liabilities: | | | | | | |
| Long-term liabilities – due in more than one year: | | | | | | |
| Compensated absences | 308,218 | 47,487 | 355,705 | 275,350 | 40,558 | 315,908 |
| Bonds payable, net | 625,912 | - | 625,912 | 1,181,369 | - | 1,181,369 |
| Loan payable – State revolving fund | - | 125,966,832 | 125,966,832 | - | 130,044,068 | 130,044,068 |
| Loan payable – Expanded use loan | - | 1,161,982 | 1,161,982 | - | 1,161,982 | 1,161,982 |
| Net OPEB liability | 4,798,065 | - | 4,798,065 | 4,793,116 | - | 4,793,116 |
| Net pension liability | 6,911,168 | - | 6,911,168 | 3,491,505 | - | 3,491,505 |
| Total non-current liabilities | 12,643,363 | 127,176,301 | 139,819,664 | 9,741,340 | 131,246,608 | 140,987,948 |
| Total liabilities | 14,566,940 | 132,598,651 | 147,165,591 | 11,478,715 | 135,384,272 | 146,862,987 |
| Deferred inflows of resources: | | | | | | |
| Deferred amounts related to net OPEB liability | 650,426 | - | 650,426 | 863,221 | - | 863,221 |
| Deferred amounts related to net pension liability | 712,047 | - | 712,047 | 3,144,653 | - | 3,144,653 |
| Total deferred inflows of resources | 1,362,473 | - | 1,362,473 | 4,007,874 | - | 4,007,874 |
| Net position: | | | | | | |
| Net investment in capital assets | 36,621,348 | 28,986,928 | 65,608,276 | 35,223,414 | 29,090,248 | 64,313,662 |
| Restricted | - | 14,400,069 | 14,400,069 | - | 14,014,719 | 14,014,719 |
| Unrestricted | 9,295,125 | (6,333,284) | 2,961,841 | 8,617,990 | (6,106,601) | 2,511,389 |
| Total net position | \$ 45,916,473 | \$ 37,053,713 | \$ 82,970,186 | \$ 43,841,404 | \$ 36,998,366 | \$ 80,839,770 |

HI-DESERT WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position – Combined – Internal Funds For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

| | Water | Sewer | 2023 | Water | Sewer | 2022 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Operating revenues: | | | | | | |
| Water consumption sales | \$ 6,170,645 | \$ - | \$ 6,170,645 | \$ 6,573,607 | \$ - | \$ 6,573,607 |
| Readiness-to-serve fees | 1,739,502 | - | 1,739,502 | 1,685,454 | - | 1,685,454 |
| Sewer service fees | - | 3,033,112 | 3,033,112 | - | 2,483,718 | 2,483,718 |
| Other operating revenues | 295,591 | 7,959 | 303,550 | 286,819 | 4,076 | 290,895 |
| Total operating revenues | 8,205,738 | 3,041,071 | 11,246,809 | 8,545,880 | 2,487,794 | 11,033,674 |
| Operating expenses: | | | | | | |
| Source of supply | 1,459,689 | - | 1,459,689 | 1,072,440 | - | 1,072,440 |
| Pumping and water treatment | 1,967,715 | 2,009,455 | 3,977,170 | 2,210,554 | 1,875,025 | 4,085,579 |
| Transmission and distribution | 1,616,128 | 39,943 | 1,656,071 | 1,824,511 | 17,895 | 1,842,406 |
| Sewer operations | - | 930,303 | 930,303 | - | 889,331 | 889,331 |
| Customer accounts | 327,841 | - | 327,841 | 274,162 | - | 274,162 |
| General and administrative | 3,804,080 | - | 3,804,080 | 4,272,896 | - | 4,272,896 |
| Total operating expenses | 9,175,453 | 2,979,701 | 12,155,154 | 9,654,563 | 2,782,251 | 12,436,814 |
| Operating income(loss) before depreciation | (969,715) | 61,370 | (908,345) | (1,108,683) | (294,457) | (1,403,140) |
| Depreciation expense | (1,820,672) | (4,433,796) | (6,254,468) | (1,812,734) | (4,458,092) | (6,270,826) |
| Operating income(loss) | (2,790,387) | (4,372,426) | (7,162,813) | (2,921,417) | (4,752,549) | (7,673,966) |
| Non-operating revenues(expenses): | | | | | | |
| Property taxes | 2,332,471 | - | 2,332,471 | 2,078,812 | - | 2,078,812 |
| Measure Z sales tax revenue | - | 2,865,331 | 2,865,331 | - | 2,864,569 | 2,864,569 |
| Assessment revenue | - | 2,642,068 | 2,642,068 | - | 3,768,340 | 3,768,340 |
| Investment earnings | 312,132 | - | 312,132 | (23,657) | - | (23,657) |
| Capital surcharge | 1,713,589 | - | 1,713,589 | 1,647,953 | - | 1,647,953 |
| Morongo basin project | - | - | - | (169,049) | - | (169,049) |
| Interest expense | (58,920) | (1,300,452) | (1,359,372) | (80,275) | (1,347,960) | (1,428,235) |
| Transfers in(out) | - | - | - | - | - | - |
| Other non-operating revenues | 134,224 | 3,064 | 137,288 | 146,647 | (1,124) | 145,523 |
| Other non-operating expenses | (14,652) | - | (14,652) | (734,039) | - | (734,039) |
| Total non-operating revenues, net | 4,418,844 | 4,210,011 | 8,628,855 | 2,866,392 | 5,283,825 | 8,150,217 |
| Change in net position before capital contribs. | 1,628,457 | (162,415) | 1,466,042 | (55,025) | 531,276 | 476,251 |
| Capital contributions: | | | | | | |
| Capital grants | 4,238 | 217,762 | 222,000 | - | 100,366 | 100,366 |
| Meter sales and installation | 442,374 | - | 442,374 | 767,103 | - | 767,103 |
| Total capital contributions | 446,612 | 217,762 | 664,374 | 767,103 | 100,366 | 867,469 |
| Change in net position | 2,075,069 | 55,347 | 2,130,416 | 712,078 | 631,642 | 1,343,720 |
| Net position: | | | | | | |
| Beginning of year | 43,841,404 | 36,998,366 | 80,839,770 | 43,129,326 | 36,366,724 | 79,496,050 |
| End of year | \$ 45,916,473 | \$ 37,053,713 | \$ 82,970,186 | \$ 43,841,404 | \$ 36,998,366 | \$ 80,839,770 |

Statistical Section



HI-DESERT WATER DISTRICT

Statistical Section

Table of Contents

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.

| | <u>Pages</u> |
|---|--------------|
| Financial Trends | 58-61 |
| These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time. | |
| Revenue Capacity | 62-66 |
| These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales. | |
| Debt Capacity | 67-68 |
| 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. | |
| Demographic Information | 69 |
| This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place. | |
| Operating Information | 70-71 |
| 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. | |

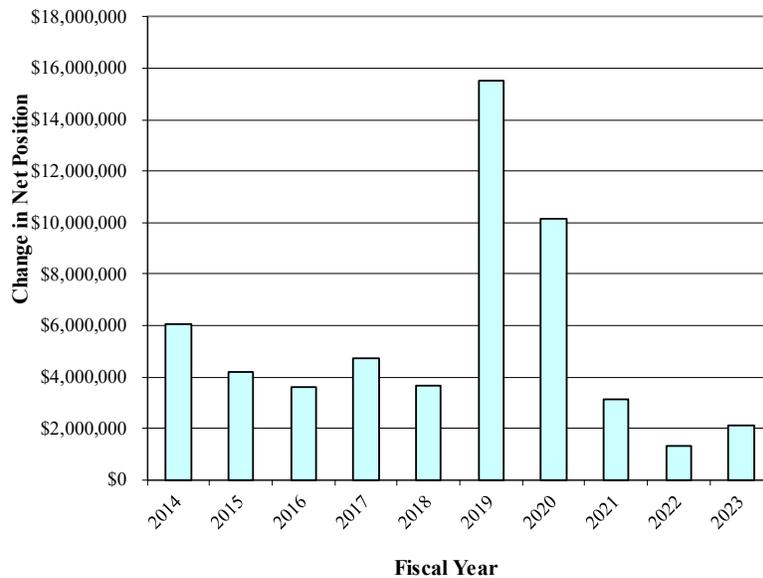
HI-DESERT WATER DISTRICT

Changes in Net Position by Component

Last Ten Fiscal Years

| | Fiscal Year | | | | |
|---|----------------------|-------------------|--------------------|--------------------|--------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Changes in net position: | | | | | |
| Operating revenues (see Schedule 2) | \$ 8,270,632 | 7,616,919 | 7,512,847 | 7,779,002 | 7,968,186 |
| Operating expenses (see Schedule 3) | (5,604,675) | (6,863,367) | (7,512,365) | (8,423,756) | (10,922,202) |
| Depreciation and amortization | (1,375,158) | (1,555,113) | (1,811,941) | (1,904,459) | (1,912,447) |
| Operating income(loss) | 1,290,799 | (801,561) | (1,811,459) | (2,549,213) | (4,866,463) |
| Non-operating revenues(expenses): | | | | | |
| Property taxes | 1,338,163 | 1,393,362 | 1,448,390 | 1,483,026 | 1,538,716 |
| Assessment revenue | - | - | 650,071 | 18,160 | 1,776,801 |
| Investment income | 53,148 | 57,118 | 65,086 | 70,752 | 104,782 |
| Dept. of Water Resources Reach II surcharge | 1,019,310 | 1,033,544 | 1,040,681 | 1,043,528 | 1,052,307 |
| Morongo Basin Project | 532,424 | 539,748 | 543,894 | 545,689 | 550,632 |
| Lease payment - Morongo Basin Project | (480,021) | (480,187) | (479,946) | (479,651) | (487,102) |
| Interest expense | (257,853) | (139,733) | (158,943) | (147,196) | (134,605) |
| Bond issuance costs | (2,131) | (31,337) | (3,631) | (3,631) | (3,631) |
| Other revenue/(expense), net | (1) 36,625 | 90,976 | 46,442 | 151,628 | 171,672 |
| Total non-operating revenues, net | 2,239,665 | 2,463,491 | 3,152,044 | 2,682,305 | 4,569,572 |
| Net income (loss) before capital contributions | 3,530,464 | 1,661,930 | 1,340,585 | 133,092 | (296,891) |
| Capital contributions | 2,497,998 | 2,508,448 | 2,239,380 | 4,571,514 | 3,956,009 |
| Changes in net position | \$ 6,028,462 | 4,170,378 | 3,579,965 | 4,704,606 | 3,659,118 |
| Net position by component: | | | | | |
| Net investment in capital assets | \$ 32,102,689 | 35,998,775 | 39,682,015 | 42,424,863 | 47,787,711 |
| Restricted | - | - | - | - | 1,987,520 |
| Unrestricted | 8,482,841 | 5,723,695 | 5,620,420 | 7,582,178 | 738,485 |
| Total net position | \$ 40,585,530 | 41,722,470 | 45,302,435 | 50,007,041 | 50,513,716 |

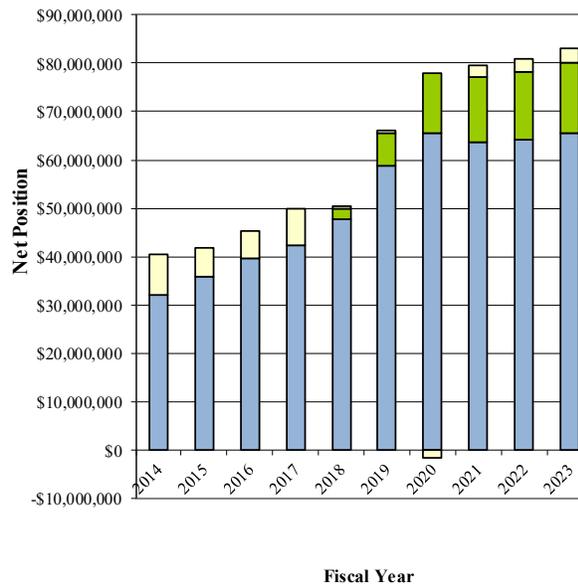
Note: (1) Includes CalPERS Side-Fund expense in FY 2012.



Source: Hi-Desert Water District Accounting Department

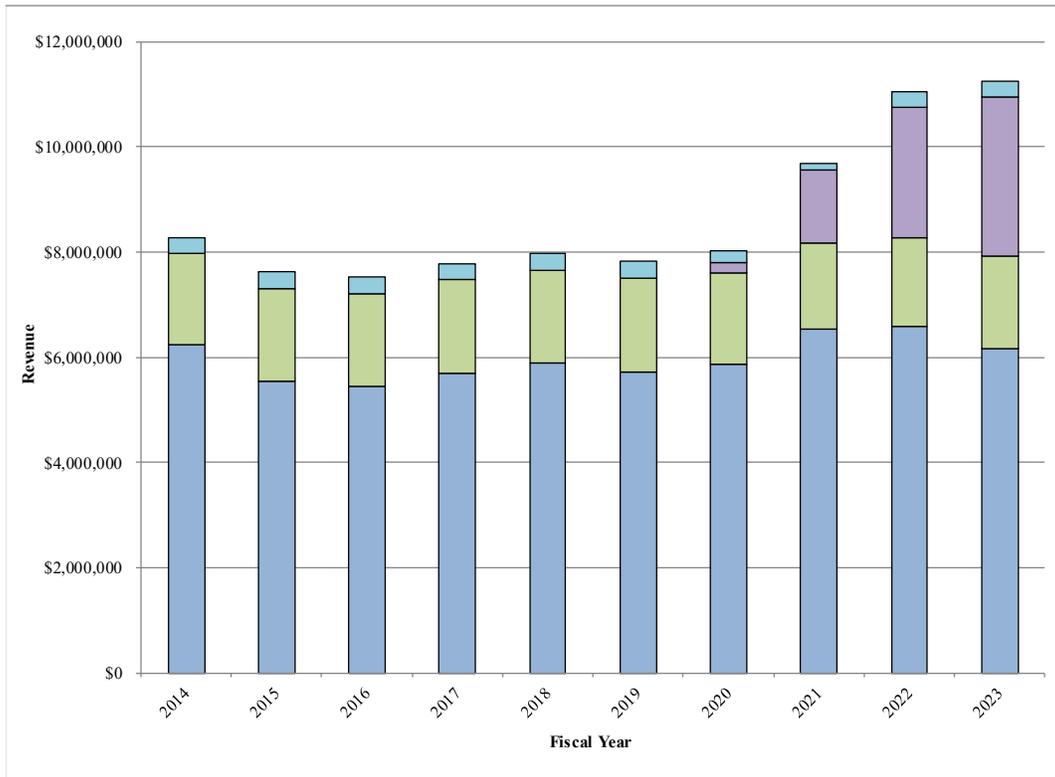
HI-DESERT WATER DISTRICT
Changes in Net Position by Component (Continued)
Last Ten Fiscal Years

| Fiscal Year | | | | |
|-------------|--------------|--------------|--------------|--------------|
| 2019 | 2020 | 2021 | 2022 | 2023 |
| 7,813,285 | 8,028,319 | 9,671,048 | 11,033,674 | 11,246,809 |
| (9,229,215) | (10,524,979) | (11,967,423) | (12,436,814) | (12,155,154) |
| (1,871,168) | (1,916,159) | (4,133,315) | (6,270,826) | (6,254,468) |
| (3,287,098) | (4,412,819) | (6,429,690) | (7,673,966) | (7,162,813) |
| 1,634,342 | 1,703,128 | 1,918,559 | 2,078,812 | 2,332,471 |
| 4,701,490 | 5,917,859 | 6,510,747 | 6,632,909 | 5,507,399 |
| 151,394 | 131,169 | 48,432 | (23,657) | 312,132 |
| 1,065,563 | 1,224,922 | 1,580,727 | 1,647,953 | 1,713,589 |
| 557,752 | 51,052 | - | - | - |
| (481,070) | (8,960) | (7,945) | (169,049) | - |
| (118,103) | (107,564) | (1,434,177) | (1,428,235) | (1,359,372) |
| (3,631) | - | - | - | - |
| 251,546 | 183,644 | 156,778 | (588,516) | 122,636 |
| 7,759,283 | 9,095,250 | 8,773,121 | 8,150,217 | 8,628,855 |
| 4,472,185 | 4,472,185 | 2,343,431 | 476,251 | 1,466,042 |
| 11,025,421 | 5,661,629 | 797,237 | 867,469 | 664,374 |
| 15,497,606 | 10,133,814 | 3,140,668 | 1,343,720 | 2,130,416 |
| 58,878,373 | 65,480,889 | 63,660,666 | 64,313,662 | 65,608,276 |
| 6,579,985 | 12,526,074 | 13,441,771 | 14,014,719 | 14,400,069 |
| 552,964 | (1,651,581) | 2,393,613 | 2,511,389 | 2,961,841 |
| 66,011,322 | 76,355,382 | 79,496,050 | 80,839,770 | 82,970,186 |



HI-DESERT WATER DISTRICT
Operating Revenues by Source
Last Ten Fiscal Years

| Fiscal Year | Water Consumption Sales | Connection Fees | Readiness-to-serve Fees | Sewer Service Fees | Other Charges | Total Operating Revenue |
|-------------|-------------------------|-----------------|-------------------------|--------------------|---------------|-------------------------|
| 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 | 5,864,805 | - | 1,727,259 | 194,103 | 243,770 | 8,029,937 |
| 2021 | 6,530,140 | - | 1,637,183 | 1,400,055 | 103,670 | 9,671,048 |
| 2022 | 6,573,607 | - | 1,685,454 | 2,483,718 | 290,895 | 11,033,674 |
| 2023 | 6,170,645 | - | 1,739,502 | 3,033,112 | 303,550 | 11,246,809 |



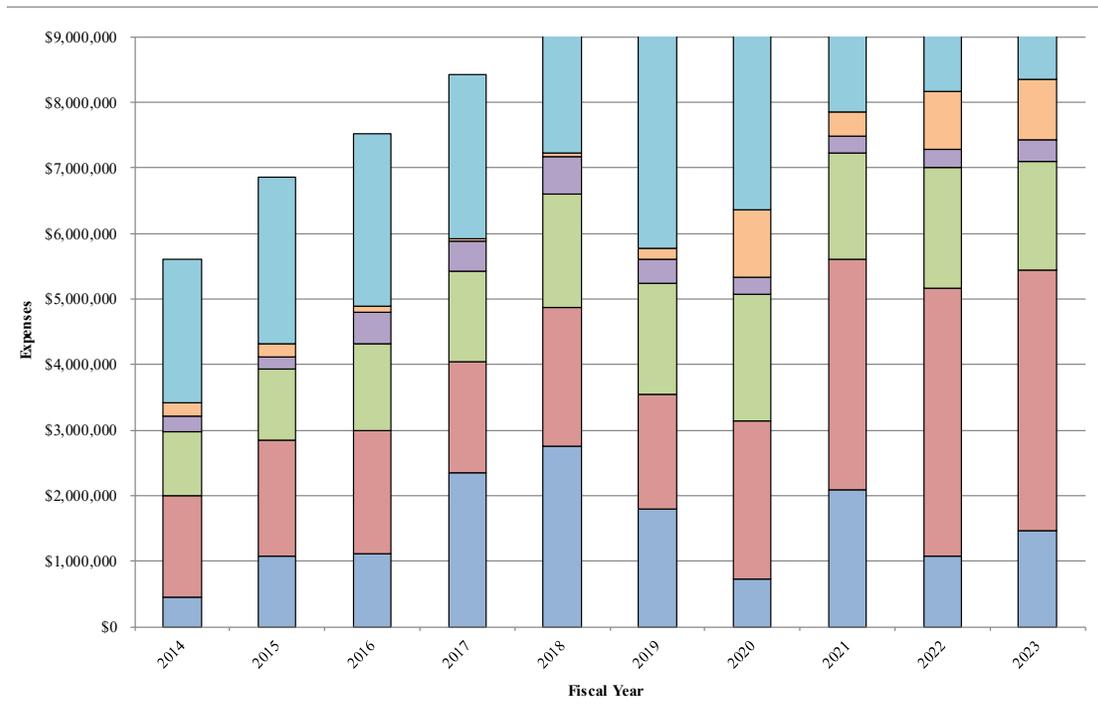
Source: Hi-Desert Water District Accounting Department

HI-DESERT WATER DISTRICT

Operating Expenses by Activity

Last Ten Fiscal Years

| Fiscal Year | Source of Supply | Pumping and Water Treatment | Transmission and Distribution | Customer Accounts | Wastewater Operations | General and Administrative | Total Operating Expenses |
|-------------|------------------|-----------------------------|-------------------------------|-------------------|-----------------------|----------------------------|--------------------------|
| 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 | 2,409,111 | 1,940,831 | 259,413 | 1,026,977 | 4,169,332 | 10,526,776 |
| 2021 | 2,096,895 | 3,499,648 | 1,622,916 | 257,937 | 379,262 | 4,110,765 | 11,967,423 |
| 2022 | 1,072,440 | 4,085,579 | 1,842,406 | 274,162 | 889,331 | 4,272,896 | 12,436,814 |
| 2023 | 1,459,689 | 3,977,170 | 1,656,071 | 327,841 | 930,303 | 3,804,080 | 12,155,154 |



Source: Hi-Desert Water District Accounting Department

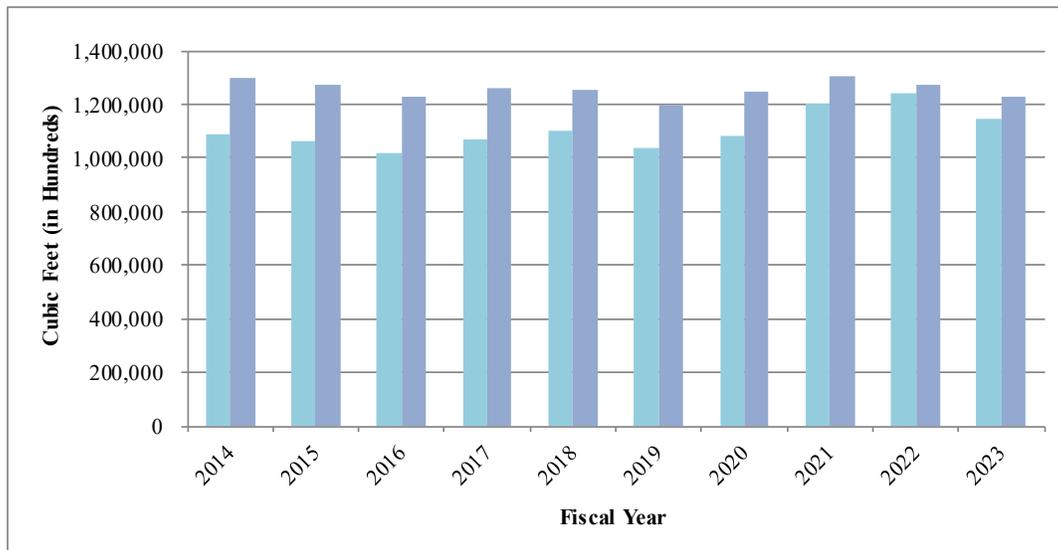
HI-DESERT WATER DISTRICT

Revenue Base

Last Ten Fiscal Years

Hi-Desert Water District Revenue Base Last Ten Fiscal Years

| Fiscal Year | Water Sales (HCF) | Water Produced (HCF) |
|-------------|-------------------|----------------------|
| 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 |
| 2021 | 1,199,597 | 1,302,284 |
| 2022 | 1,238,890 | 1,272,736 |
| 2023 | 1,144,376 | 1,226,707 |



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

Last Ten Fiscal Years

Water Rates:

| Water Consumption per Hundred Cubic Feet (HCF) | | | | | | | | | | | |
|--|----|------|------|------|------|------|------|------|------|------|------|
| HCF Consumed | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| 0-4 | \$ | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 | 3.65 | 3.76 | 3.88 | 4.11 |
| 5-10 / 5-11 (20&21) | | 5.69 | 5.69 | 5.69 | 5.69 | 5.69 | 5.69 | 6.17 | 6.36 | 6.55 | 6.95 |
| .28 / 12-28 (20 & 21) | | 6.89 | 6.89 | 6.89 | 6.89 | 6.89 | 6.89 | 7.02 | 7.24 | 7.45 | 7.91 |
| 29-40 | | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 7.02 | 7.24 | 7.45 | 7.91 |
| 41-53 | | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 7.02 | 7.24 | 7.45 | 7.91 |
| 54-65 | | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 7.02 | 7.24 | 7.45 | 7.91 |
| 66-78 | | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 7.02 | 7.24 | 7.45 | 7.91 |
| 79-over | | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 9.08 | 7.02 | 7.24 | 7.45 | 7.91 |

| Connection Fees per Month | | | | | | | | | | | |
|---------------------------|----|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Meter Size | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| 5/8" & 3/4" | \$ | 11.80 | 11.80 | 11.80 | 11.80 | 11.80 | 11.80 | 10.39 | 10.70 | 11.02 | 11.69 |
| 1" | | 23.80 | 23.80 | 23.80 | 23.80 | 23.80 | 23.80 | 15.12 | 15.57 | 16.04 | 17.02 |
| 1 1/2" | | 43.80 | 43.80 | 43.80 | 43.80 | 43.80 | 43.80 | 23.01 | 23.70 | 24.42 | 25.90 |
| 2" | | 67.80 | 67.80 | 67.80 | 67.80 | 67.80 | 67.80 | 32.47 | 33.44 | 33.44 | 36.54 |
| 3" | | 131.90 | 131.90 | 131.90 | 131.90 | 131.90 | 131.90 | 57.70 | 59.43 | 61.22 | 64.94 |
| 4" | | 203.90 | 203.90 | 203.90 | 203.90 | 203.90 | 203.90 | 86.09 | 88.67 | 91.33 | 96.90 |
| 6" | | 404.10 | 404.10 | 404.10 | 404.10 | 404.10 | 404.10 | 164.94 | 169.89 | 174.99 | 185.65 |

| Pipeline Surcharge Fees per Month | | | | | | | | | | | |
|-----------------------------------|----|--------|--------|--------|--------|--------|--------|------|------|------|------|
| Meter Size | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2022 | 2024 |
| 5/8" & 3/4" | \$ | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 1" | | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 1 1/2" | | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2" | | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3" | | 44.00 | 44.00 | 44.00 | 44.00 | 44.00 | 44.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 4" | | 68.00 | 68.00 | 68.00 | 68.00 | 68.00 | 68.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 6" | | 132.00 | 132.00 | 132.00 | 132.00 | 132.00 | 132.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Capital Replacement Program (CRP) Surcharge Fees per Month | | | | | | | | | | | |
|--|----|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Meter Size | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2022 | 2023 |
| 5/8" & 3/4" | \$ | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | 10.36 | 10.67 | 10.99 | 11.66 |
| 1" | | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 25.90 | 26.68 | 27.48 | 29.15 |
| 1 1/2" | | 22.50 | 22.50 | 22.50 | 22.50 | 22.50 | 22.50 | 51.80 | 53.35 | 54.95 | 58.30 |
| 2" | | 37.50 | 37.50 | 37.50 | 37.50 | 37.50 | 37.50 | 82.88 | 85.37 | 87.93 | 93.29 |
| 3" | | 82.50 | 82.50 | 82.50 | 82.50 | 82.50 | 82.50 | 165.75 | 170.72 | 175.84 | 186.55 |
| 4" | | 127.50 | 127.50 | 127.50 | 127.50 | 127.50 | 127.50 | 258.97 | 266.74 | 274.74 | 291.47 |
| 6" | | 247.50 | 247.50 | 247.50 | 247.50 | 247.50 | 247.50 | 517.94 | 533.48 | 549.48 | 582.94 |

Sewer Rates:

| Operation and Maintenance Fees per Month | | | | | | | | | | | |
|--|--|------|------|------|------|------|------|-------|-------|-------|-------|
| EDU ⁽²⁾ | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2022 | 2023 |
| SFR | | | | | | | | 44.03 | 45.35 | 46.71 | 46.71 |
| MFR | | | | | | | | 44.03 | 45.35 | 46.71 | 46.71 |
| MH | | | | | | | | 44.03 | 45.35 | 46.71 | 46.71 |
| Non-residential | | | | | | | | 44.03 | 45.35 | 46.71 | 46.71 |

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

Note:

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

(2) EDU stands for Equivalent Dwelling Unit.

Single Family Residential - 1.0 EDU per residential unit

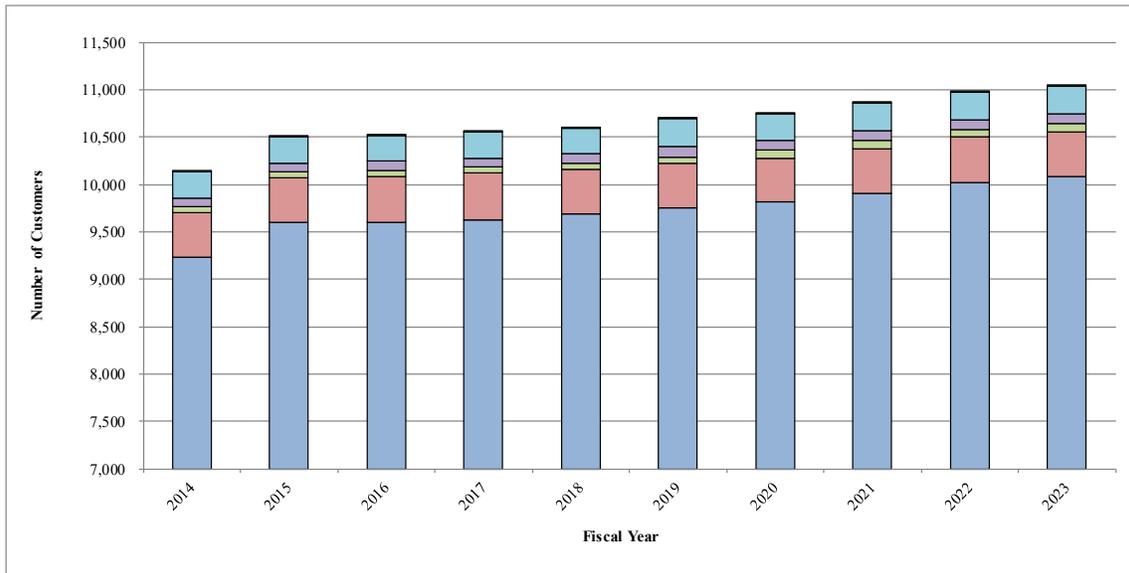
Multi-Family Residential - 0.75 EDU per residential unit

Mobile Homes Residential - 0.6 EDU per residential unit

Non-Residential - A minimum of 1.0 EDU or 90% of water consumption, whichever is greater

HI-DESERT WATER DISTRICT
Customers by Type – Water Operations
Last Ten Fiscal Years

| Fiscal Year | Customer Type | | | | | | Total |
|-------------|---------------|------------|-----------------|------------|--------------|-------|--------|
| | Residential | Commercial | Public Entities | Irrigation | Multi-Family | Parks | |
| 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 |
| 2021 | 9,910 | 470 | 79 | 108 | 290 | 13 | 10,870 |
| 2022 | 10,023 | 476 | 80 | 97 | 297 | 14 | 10,987 |
| 2023 | 10,079 | 480 | 80 | 99 | 302 | 14 | 11,054 |

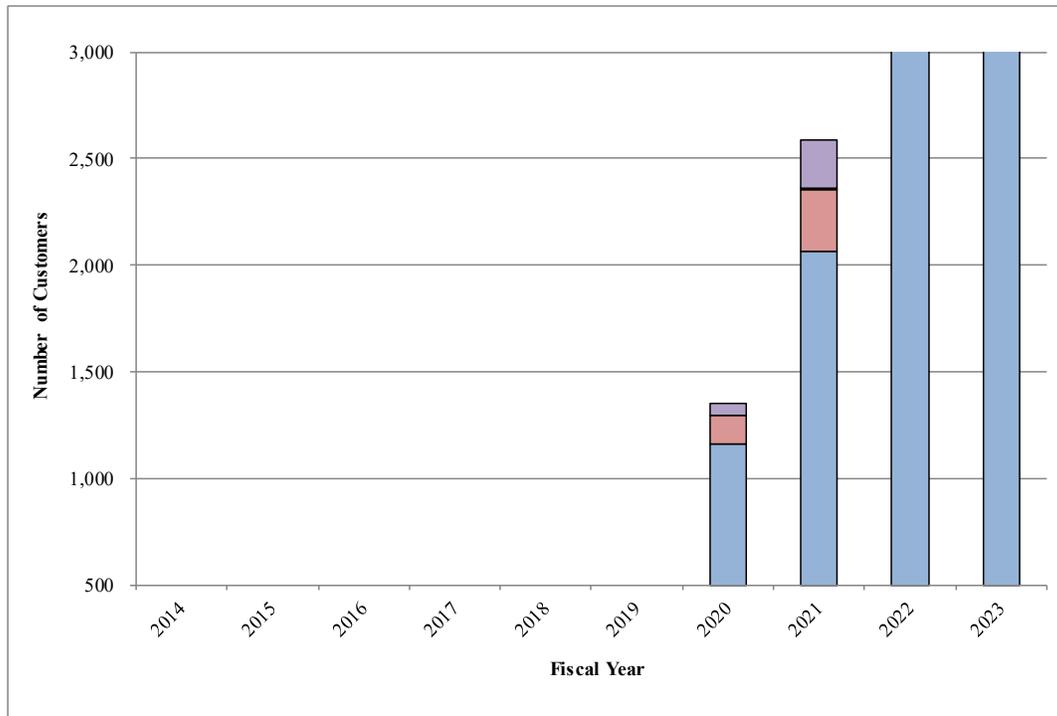


Source: Hi-Desert Water District Accounting Department

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

HI-DESERT WATER DISTRICT
Customers by Type – Sewer Operations
Last Ten Fiscal Years

| Fiscal Year | Customer Type | | | | Total |
|-------------|---------------------------|-------------------------|-------------------|-----------------|-------|
| | Single Family Residential | Mult-Family Residential | Mobile Home Parks | Non Residential | |
| 2014 | | | | | - |
| 2015 | | | | | - |
| 2016 | | | | | - |
| 2017 | | | | | - |
| 2018 | | | | | - |
| 2019 | | | | | - |
| 2020 | 1,159 | 135 | - | 57 | 1,351 |
| 2021 | 2,067 | 286 | 11 | 225 | 2,589 |
| 2022 | 3,027 | 382 | 143 | 339 | 3,891 |
| 2023 | 3,304 | 399 | 143 | 368 | 4,214 |



Source: Hi-Desert Water District Accounting Department

Note: Number of customers by parcel as of June 30, of fiscal year.
 Private Lateral Connections started in November 2019.

HI-DESERT WATER DISTRICT

Principal Customers

Current and Nine Years Ago

| <u>Customer</u> | 2023 | |
|---------------------------------|-----------------------|----------------------------|
| | <u>Water Consumed</u> | <u>Percentage of Total</u> |
| Walmart Stores | 7,031 | 0.61% |
| Morongo Unified School District | 6,736 | 0.59% |
| Apache MHP Association | 6,683 | 0.58% |
| Brehm2 Town of Yucca Valley | 6,658 | 0.58% |
| Caritas Corporation | 6,593 | 0.58% |
| Country Club MHP | 6,579 | 0.57% |
| Morongo Unified School District | 6,497 | 0.57% |
| Best Western JT Hotel & Suites | 6,198 | 0.54% |
| Town of Yucca Valley | 5,630 | 0.49% |
| Kerri/Jim Depierro | 5,513 | 0.48% |
| Total | <u>64,118</u> | <u>5.60%</u> |
| Total Water Consumed (HCF) | <u>1,144,376</u> | <u>100.00%</u> |

| <u>Customer</u> | 2014 | |
|---------------------------------|-----------------------|----------------------------|
| | <u>Water Consumed</u> | <u>Percentage of Total</u> |
| Morongo Unified School District | 24,991 | 2.29% |
| Town of Yucca Valley | 19,120 | 1.75% |
| Basin Wide Foundation | 12,450 | 1.14% |
| Wal Mart Stores | 11,234 | 1.03% |
| Shamrock Millco Aztec LLC | 8,922 | 0.82% |
| Country Club Mobilehome Estate | 6,737 | 0.62% |
| Apache MHP Association | 6,535 | 0.60% |
| Vons Store # 63058 | 4,709 | 0.43% |
| Tri-Valley Little League | 4,685 | 0.43% |
| Sky Harbor Care Center | 4,584 | 0.42% |
| Total | <u>103,967</u> | <u>9.53%</u> |
| Total Water Consumed (HCF) | <u>1,091,186</u> | <u>100.00%</u> |

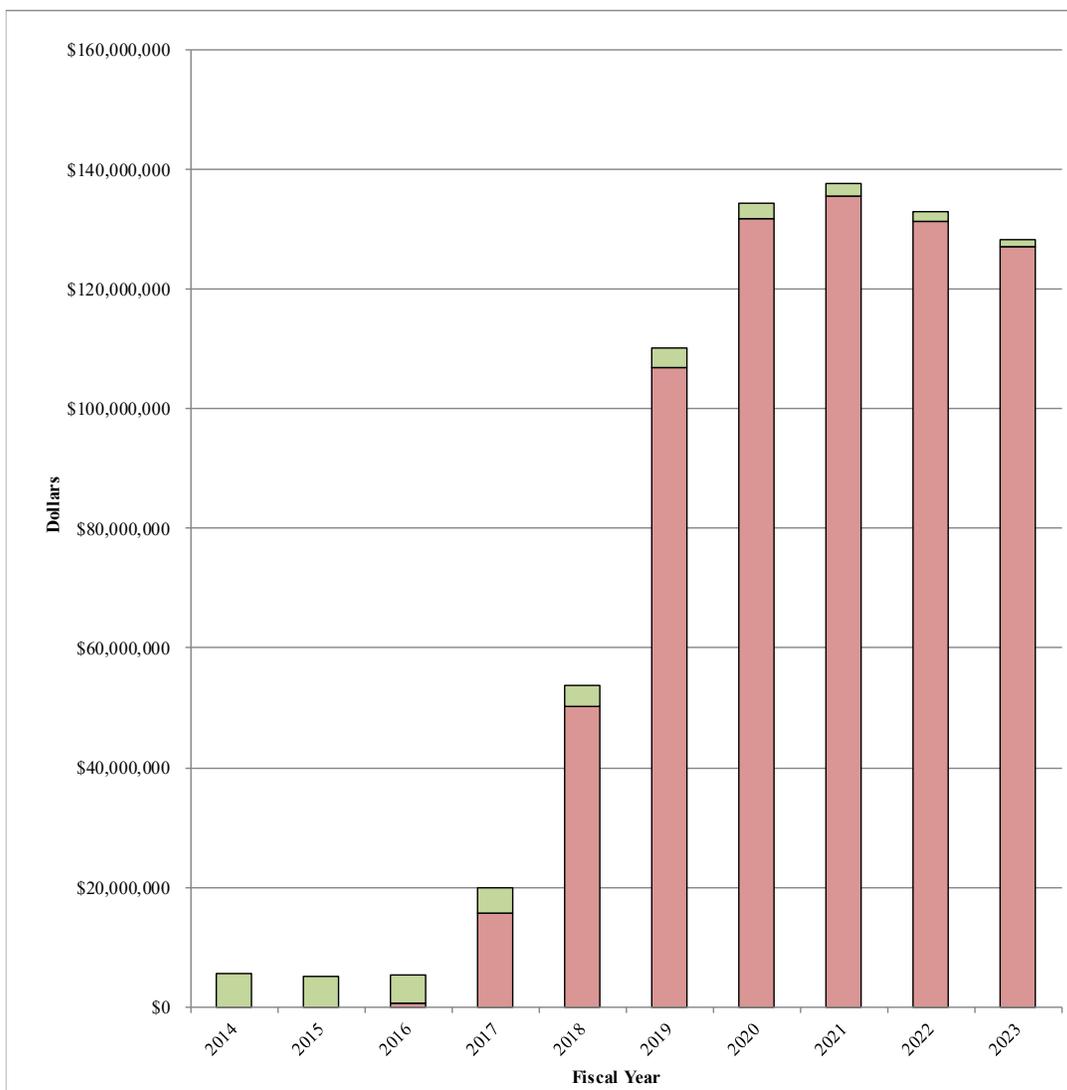
Source: Hi-Desert Water District Accounting Department

HI-DESERT WATER DISTRICT

Ratios of Outstanding Debt

Last Ten Fiscal Years

| Fiscal Year | Loans Payable | Bonds Payable | Notes Payable | Total | | |
|-------------|---------------|---------------|---------------|-------------|------------|-------------------------------|
| | | | | Debt | Per Capita | As a Share of Personal Income |
| 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% |
| 2021 | 135,440,100 | 2,196,836 | - | 137,636,936 | 6,254.23 | 13.95% |
| 2022 | 131,206,050 | 1,671,369 | - | 132,877,419 | 6,089.43 | 12.30% |
| 2023 | 127,128,814 | 1,135,912 | - | 128,264,726 | 5,921.19 | 11.96% |



Source: Hi-Desert Water District Accounting Department

HI-DESERT WATER DISTRICT
Pledged Revenue Coverage
Last Ten Fiscal Years

| Fiscal Year | Net Revenues | Operating Expenses ⁽¹⁾ | Net Available Revenues | Debt Service | | | Coverage Ratio |
|-------------|--------------|-----------------------------------|------------------------|--------------------------|----------|-----------|----------------|
| | | | | Principal ⁽²⁾ | Interest | Total | |
| 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 | 17,110,721 | (10,526,776) | 6,583,945 | 450,000 | 107,564 | 557,564 | 11.81 |
| 2021 | 19,886,291 | (11,975,368) | 7,910,923 | 480,000 | 86,350 | 566,350 | 13.97 |
| 2022 | 20,804,832 | (12,436,814) | 8,368,018 | 490,000 | 76,750 | 566,750 | 14.76 |
| 2023 | 20,922,904 | (12,155,154) | 8,767,750 | 490,000 | 76,750 | 566,750 | 15.47 |

Source: Hi-Desert Water District Accounting Department

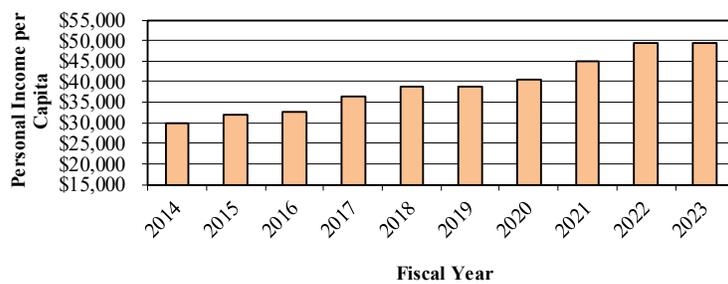
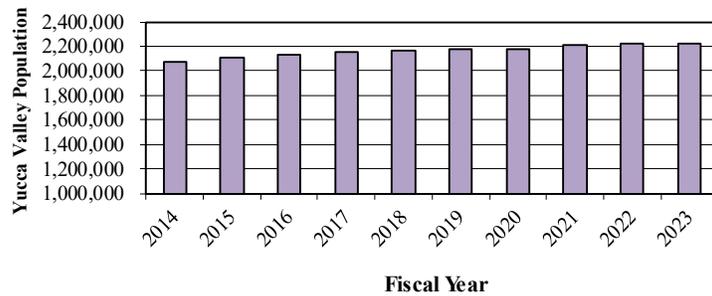
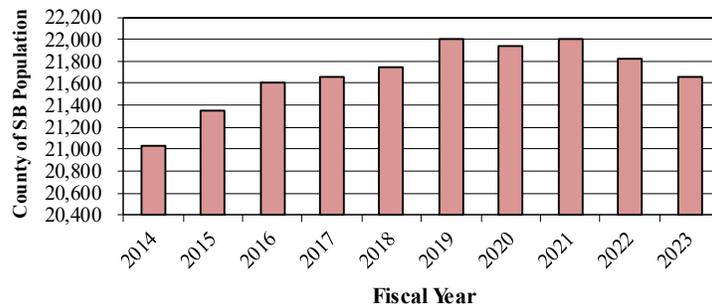
Notes:

(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

| Year | County of San Bernardino ⁽²⁾ | | | | |
|------|---|-------------------|------------|--|----------------------------|
| | Yucca Valley Population ⁽¹⁾ | Unemployment Rate | Population | Personal Income (thousands of dollars) | Personal Income per Capita |
| 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 |
| 2021 | 22,007 | 8.1% | 2,206,750 | 98,930,809 | 44,831 |
| 2022 | 21,821 | 4.0% | 2,220,081 | 109,878,469 | 49,493 |
| 2023 | 21,662 | 4.9% | 2,225,586 | 110,150,928 | 49,493 |



Source: California Department of Finance and California Labor Market Info

Notes:

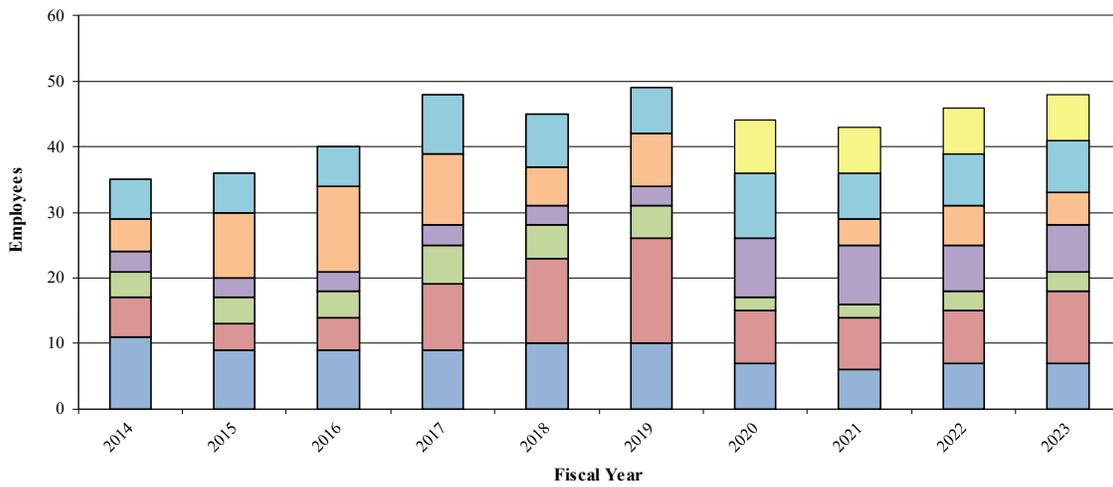
- (1) Separate data is not prepared for the District, therefore, the District has used data for the Town of Yucca Valley. A substantial portion of the District lies within the Town, and therefore, is a reasonable basis for determining the demographic and economic statistics of the District.
- (2) Only 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

| Full-time Equivalent District Employees by Department | | | | | | | | |
|---|------------|----------------|------------------------|------------------------|-----|----------------------------|------------|-------|
| Fiscal Year | Operations | Administration | Accounting and Billing | Customer/Field Service | CRP | Construction & Maintenance | Wastewater | Total |
| 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 |
| 2021 | 6 | 8 | 2 | 9 | 4 | 7 | 7 | 43 |
| 2022 | 7 | 8 | 3 | 7 | 6 | 8 | 7 | 46 |
| 2023 | 7 | 11 | 3 | 7 | 5 | 8 | 7 | 48 |



Source: Hi-Desert Water District Operations and Accounting Departments

HI-DESERT WATER DISTRICT
Operating and Capacity Indicators
Last Ten Fiscal Years

| Other Operating and Capacity Indicators | | | | | | | |
|---|-------------------------------------|--------------------------|----------------------|------------------------------|--------------------------|----------------------------|----------------------|
| <u>Fiscal Year</u> | <u>District Area (Square Miles)</u> | <u>Miles of Pipeline</u> | <u>Storage Tanks</u> | <u>Storage Capacity (MG)</u> | <u>Groundwater Wells</u> | <u>Well Capacity (MGD)</u> | <u>Fire Hydrants</u> |
| 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 |
| 2021 | 57 | 322 | 16 | 12.20 | 12 | 9.5 | 2,066 |
| 2022 | 57 | 322 | 16 | 12.20 | 12 | 9.5 | 2,066 |
| 2023 | 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.

Other Independent Auditors' Reports





INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
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), which comprise the statement of net position as of June 30, 2023, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2023.

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Nigro & Nigro, PC". The signature is written in a cursive style.

Murrieta, California
December 6, 2023