Draft
Subject to Change

Mission Springs Water District

Desert Hot Springs, California

Basic Financial Statements

For the fiscal year ended June 30, 2022

Prepared by:
Finance Department

(This page intentionally left blank.)

Draft
Subject to Change

TABLE OF CONTENTS

(This page intentionally left blank.)

Financial Section

(This page intentionally left blank.)

Independent Auditor's Report

Members of the Board of Directors
Mission Springs Water District
Desert Hot Springs, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Mission Springs Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District, as of June 30, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's office and state regulations governing special districts.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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.

Responsibility of Management for the Financial Statements

The District's 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.

Other Matters

As discussed in Note 1 to the financial statements, in the year ended June 30, 2022, the District adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

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 opinions. 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 GAAS 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 GAAS, 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 and the schedules listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections of the Annual Comprehensive Financial Report but does not include the financial statements and our auditor's report thereon. Our opinions on the 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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.

Draft
Subject to Change

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 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 solely 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 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

San Bernardino, California
March 21, 2023

Management's Discussion and Analysis
For the fiscal year ended June 30, 2022

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance and activities of the Mission Springs Water District (District) for the fiscal years ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Overview of the Basic Financial Statements

The District is a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. The District's basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The statement of net position presents information on all the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recognized on the accrual basis.

The statement of cash flows is related to the other financial statements by the way it links changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources to the effect on cash and cash equivalents over the course of the fiscal year.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, and they explain significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events, if any.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $171,870,198 (net position). Of this amount, $44,042,589 represents unrestricted net position, which represents net position available for designation by the board.

- The District's total net position increased $10,365,750 from the prior fiscal year mainly attributable to net nonoperating revenues.

Financial Analysis of the District

The statement of net position and the statement of revenues, expenses, and changes in net position provide an indication of the District's financial health. It provides a basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District.

The following tables summarize the District's financial condition and the changes in its net position for the past two years.

Statements of Net Position

Consolidated Statements of Net Position

	June 30		Change	
	2022 (in thousands)	2021 (in thousands)	Dollars (in thousands)	Percentage
Assets				
Current and other noncurrent assets	$ 59,264	$ 52,345	$ 6,919	13%
Restricted assets	303	303	-	0%
Capital assets, net	135,492	129,510	5,982	5%
Total assets	195,059	182,158	12,901	7%
Deferred outflows of resources	1,629	1,939	(310)	-16%
Liabilities				
Current liabilities	8,830	6,904	1,926	28%
Noncurrent liabilities	11,594	15,266	(3,672)	-24%
Total liabilities	20,424	22,170	(1,746)	-8%
Deferred inflows of resources	4,394	422	3,972	941%
Net position				
Net investment in capital assets	127,525	121,188	6,337	5%
Restricted	302	303	(1)	0%
Unrestricted	44,043	40,014	4,029	10%
Total net position	$ 171,870	$ 161,505	$ 10,365	6%

As shown above, the District's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $171.8 million and $161.5 million as of June 30, 2022 and 2021, respectively, an increase in net position of $10.3 million between 2022 and 2021.

Statements of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position provide information on the nature and sources of these changes. For the fiscal years ended June 30, 2022 and 2021, the District's net position increased by $10.3 million and $7.5 million, respectively, as shown by the table below.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year ended June 30		Change	
	2022 (in thousands)	2021 (in thousands)	Dollars (in thousands)	Percentage
Operating revenue				
Sales	$ 9,180	$ 9,357	$ (177)	-2%
Services	9,983	10,465	(482)	-5%
Other operating revenue	3,712	2,046	1,666	81%
Total operating revenue	22,875	21,868	1,007	5%
Total operating expenses	18,787	17,416	1,371	8%
Operating income	4,088	4,452	(364)	-8%
Property taxes and special assessments	2,660	2,528	132	5%
Investment earnings, other	(566)	145	(711)	-490%
Grants	98	656	(558)	-85%
Net nonoperating revenues	2,192	3,329	(1,137)	-34%
Interest expense	266	294	(28)	-10%
Other	-	35	(35)	-100%
Net nonoperating expenses	266	329	(63)	-19%
Income before contributions	6,014	7,452	(1,438)	-19%
Capital contributions	4,351	73	4,278	5860%
Change in net position	10,365	7,525	$ 2,840	38%
Net position, beginning of year	161,505	153,980		
Net position, end of year	$ 171,870	$ 161,505		

Operating Revenues

Fiscal year 2021/2022 saw an increase in operating revenue of 5%. This was due to a scheduled rate increase and increased production/sales. While total operating expenses only increased by 8%, a net operating income of $4.1 million was accomplished.

Nonoperating Revenues/Expenses and Capital Contributions

Net nonoperating revenue decreased 34% over the prior mostly attributable to grants. This difference is mostly associated to the timing of grant awards.

Capital contributions increased by 5,860% from the prior year. This is mostly attributable to the timing of development related projects.

Capital Asset Administration

The District's investments in capital assets, net of accumulated depreciation, as of June 30, 2022 and June 30, 2021 were as follows:

	June 30		Change	
	2022 (in thousands)	2021 (in thousands)	Dollars (in thousands)	Percentage
Land and other land rights	$ 1,376	$ 1,376	$ -	0%
Construction in progress	22,090	20,167	1,923	10%
Building and improvements	4,285	4,389	(104)	-2%
Utility plant	105,209	101,700	3,509	3%
Furniture and equipment	1,288	834	454	54%
Other assets	1,243	1,044	199	19%
Net capital assets	$ 135,491	$ 129,510	$ 5,981	5%

For more information regarding the District's capital assets, please refer to note 4 of the notes to financial statements.

Categories of Net Position

The District is required to present its net position in three categories: Net investment in capital assets, Restricted, and Unrestricted.

<u>Net Investment in Capital Assets</u>

At June 30, 2022, the amount the District had invested in capital assets, net of related debt was $135.5 million. This balance was obtained by combining land of $1.4 million, construction in progress of $22 million, and capital assets in service, net of accumulated depreciation of $112 million and minus long-term liabilities of $8 million.

<u>Restricted Net Position – Debt Reserve</u>

The District has restricted net position of $302.5 thousand, which consists of debt reserve fund required by a project finance agreement with the California State Water Resources Control Board.

<u>Unrestricted Net Position</u>

The District had unrestricted Net Position of $44 million at June 30, 2022. The Board of Directors has designated $40.2 million of unrestricted net position to capital reserve for the future replacement, and major repairs, of infrastructure of the District. The board has also designated $150 thousand of unrestricted net position for the purpose of self-insuring the District against any claims made against the District.

Long-term Liabilities

	June 30		Change	
	2022 (in thousands)	2021 (in thousands)	Dollars (in thousands)	Percentage
Special Assessment Bond - Assessment District #4	$ 4	$ 8	$ (4)	-50%
Special Assessment Bond - Assessment District #7	45	58	(13)	-22%
COP - U.S. Department of Agriculture - 2001	238	246	(8)	-3%
Installment sale agreement - City National Bank - 2017	1,226	1,475	(249)	-17%
Installment sale agreement - Holman Capital Corporation	213	228	(15)	-7%
SWRCD - Assessment District #12, Phase IV	3,160	3,388	(228)	-7%
Installment sale agreement - City National Bank - 2013	835	891	(56)	-6%
Installment sale agreement - BBVA Compass Bank - 2014	1,911	2,028	(117)	-6%
Total notes payable	7,632	8,322	(690)	-8%
Lease liability	335	-	335	100%
Total long-term liabilities	$ 7,967	$ 8,322	$ (355)	-4%

For more information regarding the District's long-term liabilities, please refer to note 6 of the notes to financial statements.

Water Rates and Other Charges

On February 16, 2016, the Board of Directors adopted a five-year rate increase that was effective March 1, 2016, and January 1, 2017, 2018, 2019 and 2020. This increase has greatly improved the financial position of the District since its inception. Information related to this rate action as well as other information about the District's rates can be found on the District website.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and overall 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 Director of Administrative Services at 66575 Second Street, Desert Hot Springs, CA 92240.

Draft
Subject to Change

Basic Financial Statements

(This page intentionally left blank.)

Statement of Net Position
June 30, 2022

	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and investments (note 2)	$ 30,017,827	$ 17,442,738	$ 47,460,565
Receivables:			
Accounts	2,511,223	351,177	2,862,400
Other	412,111	111,214	523,325
Taxes	38,773	20,306	59,079
Assessments	-	705,129	705,129
Leases, current portion (note 3)	50,268	23,284	73,552
Prepaid expenses	95,972	43,561	139,533
Inventory	404,865	163,423	568,288
Note receivable, current portion	12,031	-	12,031
Total current assets	33,543,070	18,860,832	52,403,902
Restricted assets:			
Cash and investments (note 2)	-	302,510	302,510
Total restricted assets	-	302,510	302,510
Noncurrent assets:			
Capital assets, not being depreciated (note 4)	8,233,434	15,232,722	23,466,156
Capital assets, net of depreciation (note 4)	56,855,128	54,836,095	111,691,223
Right to use assets, net of amortization (note 4)	201,490	132,747	334,237
Note receivable, net of current portion	36,093	-	36,093
Lease receivable, net of current portion (note 3)	312,579	144,789	457,368
Assessments receivable, net of current portion	-	6,367,254	6,367,254
Total noncurrent assets	65,638,724	76,713,607	142,352,331
Total assets	99,181,794	95,876,949	195,058,743
DEFERRED OUTFLOWS OF RESOURCES			
Pension related (note 7)	1,176,691	452,682	1,629,373
Total deferred outflows of resources	1,176,691	452,682	1,629,373

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

Statement of Net Position, (Continued)
June 30, 2022

	Water	Sewer	(continued) Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 1,873,030	$ 1,306,842	$ 3,179,872
Accrued liabilities	517,685	291,247	808,932
Customer deposits	356,922	-	356,922
Unearded revenue	48,688	-	48,688
Advance construction deposits	66,001	3,053,712	3,119,713
Compensated absences, current portion	350,381	136,182	486,563
Leases payable, current portion (note 6)	81,395	37,702	119,097
Long-term liabilities, current portion (note 6)	23,813	686,382	710,195
Total current liabilities	3,317,915	5,512,067	8,829,982
Noncurrent liabilities:			
Compensated absences, net of current portion	350,381	136,182	486,563
Leases payable, net of current portion (note 6)	120,508	95,310	215,818
Long-term liabilities, net of current portion (note 6)	426,941	6,495,144	6,922,085
Net pension liability (note 7)	2,968,192	1,001,394	3,969,586
Total noncurrent liabilities	3,866,022	7,728,030	11,594,052
Total liabilities	7,183,937	13,240,097	20,424,034
DEFERRED INFLOWS OF RESOURCES			
Lease related (note 3)	356,151	164,971	521,122
Pension related (note 7)	2,658,643	1,214,119	3,872,762
Total deferred inflows of resources	3,014,794	1,379,090	4,393,884
NET POSITION			
Net investment in capital assets	64,637,808	62,887,291	127,525,099
Restricted	-	302,510	302,510
Unrestricted	25,521,946	18,520,643	44,042,589
Total net position (note 8)	$ 90,159,754	$ 81,710,444	$ 171,870,198

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2022

	Water	Sewer	Total
OPERATING REVENUES			
Sales	$ 9,179,862	$ -	$ 9,179,862
Services	2,802,674	7,180,697	9,983,371
Standby and availability	214,181	12,182	226,363
Backup facilities and front footage fees	673,349	278,440	951,789
Meter installations	151,640	-	151,640
Other	2,007,676	375,509	2,383,185
Total operating revenues	15,029,382	7,846,828	22,876,210
OPERATING EXPENSES			
Pumping	2,622,863	-	2,622,863
Transmission and distribution	1,507,366	-	1,507,366
Customer accounts	1,009,721	241,248	1,250,969
Sewage collection	-	437,653	437,653
Sewage treatment	-	1,994,382	1,994,382
Standby wages	88,828	87,137	175,965
Public affairs	351,278	154,617	505,895
General and administrative	4,252,872	1,944,614	6,197,486
Depreciation & amortization	2,300,478	1,794,225	4,094,703
Total operating expenses	12,133,406	6,653,876	18,787,282
Operating income	2,895,976	1,192,952	4,088,928
NONOPERATING REVENUES			
Property taxes - general purpose	1,460,023	870,063	2,330,086
Special assessments - debt service	-	329,617	329,617
Investment income, net	(491,158)	(277,035)	(768,193)
Grants	48,028	50,101	98,129
Other	158,248	43,824	202,072
Total nonoperating revenues	1,175,141	1,016,570	2,191,711
NONOPERATING EXPENSES			
Interest	22,144	243,385	265,529
Other	176	105	281
Total nonoperating expenses	22,320	243,490	265,810
Income before contributions	4,048,797	1,966,032	6,014,829
Capital contributions	4,303,335	47,586	4,350,921
Change in net position	8,352,132	2,013,618	10,365,750
Net position, beginning of year	81,807,622	79,696,826	161,504,448
Net position, end of year	$ 90,159,754	$ 81,710,444	$ 171,870,198

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 15,644,833	$ 7,987,650	$ 23,632,483
Cash payments to suppliers for goods and services	(4,878,970)	(2,310,713)	(7,189,683)
Cash payments for employees for services	(3,892,328)	(1,473,668)	(5,365,996)
Net cash provided by operating activities	6,873,535	4,203,269	11,076,804
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from property taxes - general purpose	1,461,079	870,548	2,331,627
Cash received from grants	1,009,898	(11,429)	998,469
Net cash provided by noncapital financing activities	2,470,977	859,119	3,330,096
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash received from special assessments - debt service	-	1,133,548	1,133,548
Cash received from note receivable	13,848	-	13,848
Acquisition and construction of capital assets	1,591,876	(6,913,262)	(5,321,386)
Principal retirement of long-term debt	(22,879)	(666,138)	(689,017)
Payments received from lease receivable	(6,696)	(3,102)	(9,798)
Payments on leased assets	(72,436)	(44,668)	(117,104)
Interest paid on long-term debt	(22,144)	(243,385)	(265,529)
Net cash provided by (used for) capital and related financing activities	1,481,569	(6,737,007)	(5,255,438)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	110,719	67,647	178,366
Change in fair value	(601,877)	(344,682)	(946,559)
Net cash used by investing activities	(491,158)	(277,035)	(768,193)
Net change in cash and investments	10,334,923	(1,951,654)	8,383,269
Cash and investments, beginning of year	19,634,216	19,649,316	39,283,532
Cash and investments, end of year	$ 29,969,139	$ 17,697,662	$ 47,666,801
RECONCILIATION TO STATEMENT OF NET POSITION			
Cash and investments	$ 30,017,827	$ 17,442,738	$ 47,460,565
Restricted cash and investments	-	302,510	302,510
Total cash and investments	$ 30,017,827	$ 17,745,248	$ 47,763,075

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022, (Continued)

	Water	Sewer	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	$ 2,895,976	$ 1,192,952	$ 4,088,928
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	2,300,478	1,794,225	4,094,703
Other nonoperating income	158,248	43,824	202,072
Other nonoperating expense	(176)	(105)	(281)
(Increase) decrease in assets and deferred outflows of resources:			
Receivables:			
Accounts	454,591	121,843	576,434
Prepaid expenses	(61,799)	(28,626)	(90,425)
Inventory	(77,925)	(36,096)	(114,021)
Deferred outflows of resources - pension related	211,309	97,880	309,189
Increase (decrease) in liabilities and deferred inflows of resources:			
Accounts payable	571,638	855,123	1,426,761
Accrued liabilities	233,235	101,240	334,475
Compensated absences	(2,864)	(1,326)	(4,190)
Customer deposits	2,612	-	2,612
Advance construction deposits	-	(24,845)	(24,845)
Net pension liability	(2,170,384)	(1,005,334)	(3,175,718)
Deferred inflows of resources - pension related	2,358,596	1,092,514	3,451,110
Net cash provided by operating activities	$ 6,873,535	$ 4,203,269	$ 11,076,804

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the entity

Mission Springs Water District (District), formerly called Desert Hot Springs Water District, was formed in 1953. The District operates under the authority of the California Water Code. Mission Springs Water District is located in the Coachella Valley of Southern California, ten miles north of the City of Palm Springs. The boundaries encompass an area of 135 square miles, within which the District maintains and operates pipelines, 14 water wells, 24 reservoirs, and 2 wastewater treatment plants. The primary service area is the City of Desert Hot Springs.

Blended component unit

The Mission Springs Water District Improvement Corporation (Corporation) was created in April of 1985 by a joint exercise of powers agreement for the purpose of acquiring, constructing, rehabilitating, financing and refinancing, or providing for the sale of leasing of public capital improvements. The Corporation is governed by a board composed of the District's board of directors. The corporation has issued debt which is secured solely from installment payments payable under and installment purchase agreement entered into by the District and the Corporation. All accounts and funds created and established pursuant any instrument or agreement to which the Corporation is a party, and any interest earned and accrued thereon, shall incur to the benefit of the District. Separate financial statements are not prepared for the Corporation. It is reported as a blended component unit.

Fund classifications

Mission Springs Water District is comprised of the following major enterprise funds:

Water Fund – Used to account for activities associated with serving 13,219 water accounts, of which 95% are residential customers.

Sewer Fund – Used to account for activities associated with providing sewage collection, treatment and disposal services to 9,165 customer accounts, of which 97% are residential customers.

Measurement focus, basis of accounting and financial statement presentation

The District operates as a utility enterprise fund and its financial statements have been prepared using the economic measurement focus and the accrual basis of accounting, in conformity with generally accepted accounting principles (GAAP) and the Uniform Systems of Accounts for Utility Districts as prescribed by the Controller of the State of California. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met. The District has elected to follow all pronouncements of the Governmental Accounting Standard's Board (GASB).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as deposits and highly liquid investments with an original maturity of 90 days or less at the date of purchase.

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at amortized cost. Investments with a maturity of greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at a given point in time.

The State Treasurer's Investment Pool (Pool) is managed by the State, Office of the Treasurer, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in the Pool are valued at the Pool's share price, the price at which the investments could be sold.

Allowance for doubtful accounts

The District recognizes bad debt expense relating to receivables when it is probable that the accounts will be uncollectible. As of June 30, 2022, all receivables were deemed collectible.

Prepaid expenses

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

Inventory

Inventories are valued at cost which approximates market, using the first in/first-out method. The costs of the inventories are recorded as expenses when used (consumption method). Inventory of material and supplies consisted of meters, valves, pipes, repair parts, gasoline, and supplies.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Restricted assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Unspent developer deposits are classified as restricted assets on the statement of net position.

Assessments receivable

The District has issued long-term debt to finance capital improvement projects and has secured these debts by placing a lien on the assessed properties. The aggregate of the property liens has been recorded as an assessment receivable on the statement of net position. As of June 30, 2022, the assessment receivable for these liens was $7,072,383 and the balance of special assessments that was delinquent was $100,450. As of June 30, 2022, all assessment receivables were deemed collectible.

Capital assets and depreciation

Capital assets are recorded at cost. If applicable, donated assets are stated at acquisition value on the date donated. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. The District uses differing capitalization thresholds for the classes of assets based on materiality. The District's policy is to review for capitalization those expenditures greater than $10,000 that have a useful life of more than one year. Estimated service lives for District's classes of assets are as follows:

Building and improvements	5 - 40 years
Utility plant	5 - 75 years
Furniture and equipment	5 - 25 years
Other assets	5 - 10 years
Intangible utility plant	5 - 25 years

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District has one item, deferred outflows related to pension, which qualifies for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The District has two items, deferred inflows related to leases and pension, which qualify for reporting in this category.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Net position

Net position is categorized as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding debt 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 – This component of net position consists of constraints placed on resources through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of resources that do not meet the definition of "restricted" or "net investment in capital assets."

Pension

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

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

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Compensated absences

The District's policy is to permit employees to accumulate a limited amount of earned vacation and sick leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. It is management's belief that the majority of the obligation will be utilized during the course of the next fiscal year. Vacation pay is payable to employees at the time a vacation is taken, cashed out, or upon termination of employment. Normally, an employee cannot accrue more vacation than the total hours accrued in the prior twenty-four-month period each year. Sick leave is payable when an employee is unable to work because of illness of an employee or employee's family member. An employee may not accumulate more than six hundred ninety-six hours of sick leave.

Unearned revenue

Unearned revenue in accrual-based statements arises when resources are received by the District before it has a legal claim to them (i.e. when grant monies are received prior to the incurrence of qualifying expenses).

Operating and nonoperating activities

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund and sewer fund are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Contributions for capital acquisitions/construction

Contributions for capital acquisitions/construction represent cash and capital asset additions contributed to the District by federal, state, and local granting agencies or by developers.

Property taxes

The County bills and collects property taxes on behalf of the District and numerous assessment districts. The District's current year tax collection is received through periodic apportionments from the County. The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on the property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements

The District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The primary objective of this statement is to improve guidance regarding the identification of lease activities for accounting and financial reporting purposes and how those activities should be reported in the financial statements.

NOTE 2: CASH AND INVESTMENTS

Cash and investments are presented in the accompanying financial statements as follows:

Cash and investments	$ 47,460,565
Restricted cash and investments	302,510
Total cash and investments	$ 47,763,075

Cash and investments as of June 30, 2022 consist of the following:

Petty cash	$ 1,100
Demand deposits	17,538,837
Investments	30,223,138
Total cash and investments	$ 47,763,075

Investment policy

The District's investment policy outlines the guidelines required to be used in effectively managing the District's available cash in accordance with the California Government Code. To address interest rate risk, the District's existing policy limits the maturity of investments to five years. To mitigate credit risks associated with its investments, the District's investment policy limits investments to large institutions and requires diversification to ensure that failure of one issuer will not significantly affect the District's cash flow.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the maximum maturity length of investments to five years.

NOTE 2: CASH AND INVESTMENTS, (CONTINUED)

Interest rate risk (continued)

Maturities of investments at June 30, 2022, were as follows:

		Remaining maturing (in months)			
Investment type	Total	12 Months or Less	13 to 36 Months	37 to 60 Months	More than 60 Months
Investment Trust of California (CalTRUST)	$ 30,223,138	$ 8,948,380	$ 21,274,758	$ -	$ -
Total	$ 30,223,138	$ 8,948,380	$ 21,274,758	$ -	$ -

Concentration of credit risk

A concentration of credit risk is the risk of loss attributable to the magnitude of the District's investment in a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2022, there were no investments in any one issuer (other than U.S. Treasury securities, agency funds, corporate funds, and external investment pools) that represent 5% or more of total District investments.

Custodial credit risk

Custodial credit risk is the risk that the District will not be able to (a) recover deposits if the depositor financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

<u>Deposits</u>

The California Government Code requires California banks and savings and loan associations to secure a local governmental agency's (agency) deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. The agency may waive collateral requirements for deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC).

Deposits are exposed to custodial credit risk if they are uninsured and are either uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the depositor-government's name. At June 30, 2022, District's deposits (bank balances) exceeded the maximum deposit insurance amount by $19,225,707, which is collateralized as described above.

NOTE 2: CASH AND INVESTMENTS, (CONTINUED)

Custodial credit risk, (continued)

Investments

The California Government Code authorizes the District to invest in obligations of the United States Treasury, agencies, and instrumentalities, prime commercial paper, bankers' acceptances, repurchase and reverse repurchase agreements, financial futures or financial option contracts, negotiable certificates of deposit, obligations of the State of California, and, obligations of local agencies within California.

Investments are exposed to custodial credit risk if they are uninsured, unregistered and held by either a counterparty or the counterparty's trust department or agent but not in the government's name.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits eligible investments to large institutions. As of June 30, 2022, District had its investments in CalTrust.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in CalTrust are not subject to minimum legal ratings and credit risk disclosures.

NOTE 2: CASH AND INVESTMENTS, (CONTINUED)

Fair value measurements

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; while Level 3 inputs are significant unobservable inputs.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that the government can access at the measurement date.

- Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 inputs are unobservable inputs for an asset or liability.

Deposits and withdrawals in governmental investment pools, such as CalTrust, are made on the basis of $1 and not fair value. Accordingly, the District's investments in CalTrust are not subject to the fair value hierarchy.

Participation in external investment pools

The District is a voluntary participant in the Investment Trust of California (CalTRUST), which is a Joint Powers Authority governed by a Board of Trustees made up of local treasurers and investment officers. The Board of Trustees sets overall policy for CalTRUST and selects and supervises the activities of the Investment Manager and other agents. As of June 30, 2022, the District's investment in CalTRUST is $30,223,138, of which $2,553,708 was invested in the Liquidity funds pool, $6,394,672 in the Short-term pool, and $21,274,758 in the Medium-term pool. Amounts that may be withdrawn from the Money Market Fund are based upon the fund's assets valued using the amortized cost method. Amounts that may be withdrawn from the Short-term and Medium-term pools are based on the net asset value per share and the number of shares held by participants in each pool.

NOTE 3: LEASES RECEIVABLE

For the year ended June 30, 2022, the financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

On July 1, 2021, the District entered a 94-month lease as lessor for the use of T-Mobile Cell Tower. An initial lease receivable was recorded in the amount of $229,314. As of June 30, 2022, the value of the lease receivable is $203,856. The lessee is required to make monthly fixed payments of $2,284. The lease has an interest rate of 1.0510%. The value of the deferred inflow of resources as of June 30, 2022, was $200,040, and the District recognized lease revenue of $29,274 during the fiscal year. The lessee has three extension options, each for 60 months. The lessee had a termination period of 2 months as of the lease commencement.

On July 1, 2021, the District entered a 112-month lease as lessor for the use of CC Holdings Cell Tower. An initial lease receivable was recorded in the amount of $242,338. As of June 30, 2022, the value of the lease receivable is $220,541. The lessee is required to make monthly fixed payments of $1,987. The lease has an interest rate of 1.1870%. The value of the deferred inflow of resources as of June 30, 2022, was $216,373, and the District recognized lease revenue of $25,965 during the fiscal year. The lessee has one extension option for 60 months. The lessee had a termination period of 2 months as of the lease commencement.

On July 1, 2021, the District entered a 61-month lease as lessor for the use of AT&T Cell Tower. An initial lease receivable was recorded in the amount of $130,352. As of June 30, 2022, the value of the lease receivable is $106,523. The lessee is required to make monthly fixed payments of $1,989. The lease has an interest rate of 0.6380%. The value of the deferred inflow of resources as of June 30, 2022, was $104,709, and the District recognized lease revenue of $25,643 during the fiscal year. The lessee has four extension options, each for 60 months. The lessee had a termination period of 2 months as of the lease commencement. The lease has a lease termination penalty of $6,145.

NOTE 4: CAPITAL ASSETS

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

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated				
Land and other land rights	$ 1,376,497	$ -	$ -	$ 1,376,497
Construction in progress	20,167,485	9,565,000	(7,642,826)	22,089,659
Total capital assets, not being depreciated	21,543,982	9,565,000	(7,642,826)	23,466,156
Capital assets, being depreciated:				
Buildings and improvements	5,881,469	79,199	-	5,960,668
Utility plant	170,379,488	6,827,051	(66,534)	177,140,005
Furniture and equipment	4,691,487	711,014	(249,823)	5,152,678
Other assets	1,799,150	98,232	(8,597)	1,888,785
Total capital assets, being depreciated	182,751,594	- 7,715,496	(324,954)	190,142,136
Less accumulated depreciation for:				
Buildings and improvements	(1,492,130)	(183,572)	-	(1,675,702)
Utility plant	(68,679,879)	(3,317,294)	66,534	(71,930,639)
Furniture and equipment	(3,857,499)	(243,852)	236,874	(3,864,477)
Other assets	(756,489)	(232,203)	8,597	(980,095)
Total accumulated depreciation	(74,785,997)	(3,976,921)	312,005	(78,450,913)
Total capital assets being depreciated, net	107,965,597	3,738,575	(12,949)	111,691,223
Right to use asset, being amortized				
Right to use asset	-	452,019	-	452,019
Accumulated amortization	-	(117,782)	-	(117,782)
Right to use asset, net of amortization	-	334,237	-	334,237
Total capital assets, net	$ 129,509,579	$ 13,637,812	$ (7,655,775)	$ 135,491,616

Depreciation and amortization expense for the year ended June 30, 2022 was as follows:

Water	$ 2,300,478
Sewer	1,794,225
Total depreciation expense	$ 4,094,703

NOTE 5: COMPENSATED ABSENCES

Changes in compensated absences for the year ended June 30, 2022 were as follows:

Balance at beginning of year	$ 977,316
Earned by employees	489,837
Paid to employees	(494,027)
Balance at end of year	973,126
Less current portion	486,563
Long-term portion	$ 486,563

NOTE 6: LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings:					
Notes payable:					
Special Assessment Bond - Assessment District #4	$ 8,000	$ -	$ (4,000)	$ 4,000	$ 4,000
Special Assessment Bond - Assessment District #7	58,000	-	(13,000)	45,000	14,000
COP - U.S. Department of Agriculture - 2001	245,901	-	(7,900)	238,001	8,200
Installment sale agreement - City National Bank - 2017	1,474,548	-	(249,030)	1,225,518	256,305
Installment sale agreement - Holman Capital Corporation	227,732	-	(14,979)	212,753	15,613
SWRCB - Assessment District #12, Phase IV	3,388,171	-	(227,970)	3,160,201	58,182
Installment sale agreement - City National Bank - 2013	891,330	-	(55,867)	835,463	120,910
Installment sale agreement - BBVA Compass Bank - 2014	2,027,615	-	(116,271)	1,911,344	232,985
Total notes payable	8,321,297	-	(689,017)	7,632,280	710,195
Leases payable	-	451,894	(116,979)	334,915	119,097
Total long-term liabilities	$ 8,321,297	$ 451,894	$ (805,996)	$ 7,967,195	$ 829,292

Assessment District #4 Special Assessment Bonds, Series R-1 (direct borrowing)

On February 15, 1983, the District issued special assessment bonds for $88,200 for the construction of District improvements. The interest rate on the bonds is 11.375% per annum. Interest on the bonds is payable semi- annually on January 2 and July 2. Principal matures July 2 of each year through 2022.

NOTE 6: LONG-TERM DEBT, (CONTINUED)

Assessment District #7 Special Assessment Bonds (direct borrowing)

On February 28, 1985, the District issued special assessment bonds for $222,200 to aid in financing a sewage collection system for Assessment District #7. The interest rate on the bonds is 7.25% per annum. Interest on the bonds is payable semi- annually on January 2 and July 2. Principal matures July 2 of each year through 2024.

Certificates of Participation – United States Department of Agriculture (direct borrowing)

On July 3, 2001, the District entered into a loan agreement with the U.S.D.A. and a Certificate of Participation (COP) was issued for $348,000 to improve waterlines in Improvement District "E". The interest rate on the COP is 4.50% per annum. Interest on the COP is payable semi-annually on February 1 and August 1. Principal matures February 1 of each year through 2041.

Assessment District #12, Phase I and Phase II – Refinance (direct borrowing)

On June 26, 2006, the District entered into an installment sale agreement with La Salle National Bank in the amount of $2,200,000. The proceeds from this contract were used to purchase Assessment Districts #12 bonds totaling $1,630,024. The bond proceeds were used for Assessment District #12, phase I costs.

On September 21, 2007, the District entered into an installment sale agreement with La Salle National Bank in the amount of $1,600,000. The proceeds from this contract were used to purchase Assessment Districts #12 bonds totaling $1,329,530. The bond proceeds were used for Assessment District #12, phase II costs.

On December 22, 2017, the District entered into a loan agreement with City National Bank in the amount of $2,395,013. The proceeds from this contract were used to pay off the Phase I and II La Salle National Bank loans in the amount of $1,309,488 and $1,019,315, respectively. The interest rate on the loan agreement is 2.90% per annum. Principal and interest on the bonds is payable semi-annually on March 21 and September 21. Principal matures through September 21, 2027.

NOTE 6: LONG-TERM DEBT, (CONTINUED)

Assessment District #12, Phase I and Phase II – Refinance (direct borrowing), (continued)

The outstanding loan agreement with City National Bank contains (a) a provision that if an event of default occurs and continues, the timing of repayment of outstanding amounts become immediately due if the pledged revenues during each fiscal year are less than 115 percent of debt service coverage due in the following fiscal year and (b) a provision that if an event of default occurs and continues, the timing of repayment of outstanding amounts become immediately due if (1) the District is unable to make a payment; (2) the District fails to perform any of the agreements, covenants, or conditions required, and such default shall have continued for a period of thirty (30) days after the District has been given notice in writing of such default; (3) if the District files a petition in bankruptcy, or failure by the District to promptly lift any execution, garnishment or attachment, or adjudication of the District as bankrupt, or assignment by the District for the benefit of creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Mission Creek – 80 Acres (direct borrowing)

On June 21, 2013, the District entered into an installment sales agreement with Holman Capital Corporation in the amount of $328,000. The proceeds were used to purchase 80 acres of land for future water system improvements. The interest rate on the installment sales agreement is 4.19% per annum. Interest on the bonds is payable semi- annually on June 7 and December 7. Principal matures on June 7 and December 7 of each year through June 7, 2033.

The outstanding installment sales agreement with Holman Capital Corporation contains (a) a provision that if an event of default occurs and continues, the timing of repayment of outstanding amounts become immediately due if (1) the District is unable to make a payment; (2) the District fails to perform any of the agreements, covenants, or conditions required, and such default shall have continued for a period of thirty (30) days after the District has been given notice in writing of such default; (3) if the District violates any applicable rule, regulation, law, statute or ordinance applicable to the District or the Water System or the Parity Debt that could lead to a breach under the subsections (a) and/or (b) and that are note cured.

NOTE 6: LONG-TERM DEBT, (CONTINUED)

State Water Resources Control Board – State Revolving Fund Assessment District #12, Phase IV (direct borrowing),

In August 2012 (and later amended in January 2013), the District entered into a financing agreement with the California State Water Resources Control Board (CSWRCB) for a total amount of $9,957,921 for the purpose of financing Assessment District #12, Phase 3 costs. This program is a loan from the Clean State Revolving Fund (SRF) of which 50% of the principal amount was forgiven. This was made possible through Federal Environmental Protection Agency funds granted to SRF. The interest rate on the loan is 2.2% with principal and interest payments due annually on January 31 beginning in 2015, final payment is due January 31, 2034.

In the event of a termination, the District has agreed, upon demand, to immediately repay to the State Water Board an amount equal to installment payments due hereunder, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the District to the date of full repayment by the District.

Assessment District #12, Phase V (direct borrowing)

On December 19, 2013, the District entered into an installment sales agreement with City National Bank in the amount of $1,215,000. The proceeds were used to purchase Assessment District #12 bonds totaling $1,096,329 for phase V costs. The interest rate on the installment sales agreement is 4.10% per annum. Interest on the bonds is payable semi- annually on March 2 and September 2. Principal matures on March 2 and September 2 of each year through 2029.

The outstanding installment sales agreement with City National Bank contains (a) a provision that if an event of default occurs and continues, the timing of repayment of outstanding amounts become immediately due if (1) the District is unable to make a payment; (2) the District fails to perform any of the agreements, covenants, or conditions required, and such default shall have continued for a period of thirty (30) days after the District has been given notice in writing of such default; (3) If the District files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the approval by a court of competent jurisdiction of a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property; (4) if an event of default shall have occurred and be continuing with respect to any Parity Debt or Subordinate Debt which requires or permits the immediate acceleration thereof.

NOTE 6: LONG-TERM DEBT, (CONTINUED)

Assessment District #12, Phase VI (direct borrowing)

On November 1, 2014, the District entered into an installment sales agreement with BBVA Compass Bank in the amount of $2,700,000. The proceeds were used to purchase Assessment District #12 bonds totaling $2,582,000 for phase VI costs. The interest rate on the installment sales agreement is 3.95% per annum. Interest on the bonds is payable semi- annually on March 2 and September 2. Principal matures on March 2 and September 2 of each year through 2029.

The outstanding installment sales agreement with BBVA Compass Bank contains (a) a provision that if an event of default occurs and continues, the timing of repayment of outstanding amounts become immediately due if (1) the District is unable to make a payment; (2) the District fails to perform any of the agreements, covenants, or conditions required, and such default shall have continued for a period of thirty (30) days after the District has been given notice in writing of such default; (3) If the District files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the approval by a court of competent jurisdiction of a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property; (4) if an event of default shall have occurred and be continuing with respect to any Parity Debt or Subordinate Debt which requires or permits the immediate acceleration thereof.

The debt service requirements for the District's notes are as follows:

Year ended June 30,	Principal	Interest	Total
2023	$ 710,195	$ 233,660	$ 943,855
2024	728,102	212,556	940,658
2025	750,559	189,960	940,519
2026	756,891	166,605	923,496
2027	594,486	144,408	738,894
2028 - 2032	3,213,562	393,597	3,607,159
2033 - 2037	810,785	50,510	861,295
2038 - 2041	67,700	7,790	75,490
Total	$ 7,632,280	$ 1,399,086	$ 9,031,366

NOTE 6: LONG-TERM DEBT, (CONTINUED)

Leases payable

For the year ended June 30, 2022, the financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

On July 1, 2021, the District entered a 41-month lease as lessee for the use of 2019 Ford Ranger XL 4x4 Super Cab (2). An initial lease liability was recorded in the amount of $39,266. As of June 30, 2022, the value of the lease liability is $27,813. The District is required to make monthly fixed payments of $963. Additionally, there are monthly other reasonably certain payments of $74. The lease has an interest rate of 0.3440%. The value of the right to use asset as of June 30, 2022, of $39,266 with accumulated amortization of $11,492 is included with vehicles on the lease class activities table below. The lease has an unguaranteed residual value of $9,512.

On July 1, 2021, the District entered a 39-month lease as lessee for the use of 2019 Ford F-150 (2). An initial lease liability was recorded in the amount of $45,221. As of June 30, 2022, the value of the lease liability is $31,700. The District is required to make monthly fixed payments of $1,137. Additionally, there are monthly other reasonably certain payments of $81.The lease has an interest rate of 0.3440%. The value of the right to use asset as of June 30, 2022, of $45,221 with accumulated amortization of $13,578 is included with vehicles on the lease class activities table below. The lease has an unguaranteed residual value of $11,388.

On July 13, 2021, the District entered a 50-month lease as lessee for the use of printer-copier (engineering). An initial lease liability was recorded in the amount of $16,667. As of June 30, 2022, the value of the lease liability is $12,955. The District is required to make monthly fixed payments of $319. Additionally, there are monthly other reasonably certain payments of $25. The lease has an interest rate of 0.5050%. The value of the right to use asset as of June 30, 2022, of $16,667 with accumulated amortization of $3,867 is included with equipment on the lease class activities table below.

On March 31, 2022, the District entered a 60-month lease as lessee for the use of printer-copier (admin). An initial lease liability was recorded in the amount of $9,261. As of June 30, 2022, the value of the lease liability is $8,799. The District is required to make monthly fixed payments of $160. The lease has an interest rate of 0.7690%. The value of the right to use asset as of June 30, 2022, of $9,386 with accumulated amortization of $478 is included with equipment on the lease class activities table below.

NOTE 6: LONG-TERM DEBT, (CONTINUED)

Leases payable, (continued)

On July 1, 2021, the District entered a 61-month lease as lessee for the use of postage meter. An initial lease liability was recorded in the amount of $13,020. As of June 30, 2022, the value of the lease liability is $10,486. The District is required to make monthly fixed payments of $217. The lease has an interest rate of 0.6380%. The value of the right to use asset as of June 30, 2022, of $13,020 with accumulated amortization of $2,561 is included with equipment on the lease class activities table below.

On July 1, 2021, the District entered a 53-month lease as lessee for the use of 2020 NOV trucks (4). An initial lease liability was recorded in the amount of $110,536. As of June 30, 2022, the value of the lease liability is $85,688. The District is required to make monthly fixed payments of $2,109. Additionally, there are monthly other reasonably certain payments of $165. The lease has an interest rate of 0.5050%. The value of the right to use asset as of June 30, 2022, of $110,536 with accumulated amortization of $25,027 is included with vehicles on the lease class activities table below. The lease has an unguaranteed residual value of $21,750.

On July 1, 2021, the District entered a 45-month lease as lessee for the use of 2020 Ford Explorer. An initial lease liability was recorded in the amount of $28,907. As of June 30, 2022, the value of the lease liability is $21,243. The District is required to make monthly fixed payments of $648. Additionally, there are monthly other reasonably certain payments of $38. The lease has an interest rate of 0.5050%. The value of the right to use asset as of June 30, 2022, of $28,907 with accumulated amortization of $7,708 is included with vehicles on the lease class activities table below. The lease has an unguaranteed residual value of $6,515.

On July 1, 2021, the District entered a 46-month lease as lessee for the use of 2020 Ford F-350. An initial lease liability was recorded in the amount of $37,568. As of June 30, 2022, the value of the lease liability is $27,826. The District is required to make monthly fixed payments of $825. Additionally, there are monthly other reasonably certain payments of $47. The lease has an interest rate of 0.5050%. The value of the right to use asset as of June 30, 2022, of $37,568 with accumulated amortization of $9,800 is included with vehicles on the lease class activities table below. The lease has an unguaranteed residual value of $8,962.

On July 1, 2021, the District entered a 42-month lease as lessee for the use of 2019 Ford Trucks (6). An initial lease liability was recorded in the amount of $151,450. As of June 30, 2022, the value of the lease liability is $108,405. The District is required to make monthly fixed payments of $3,637. Additionally, there are monthly other reasonably certain payments of $245. The lease has an interest rate of 0.5050%. The value of the right to use asset as of June 30, 2022, of $151,450 with accumulated amortization of $43,271 is included with vehicles on the lease class activities table below. The lease has an unguaranteed residual value of $35,705.

NOTE 6: LONG-TERM DEBT, (CONTINUED)

Leases payable, (continued)

Estimated future lease payable service requirements are as follows:

Year ended June 30,	Principal	Interest	Total
2023	$ 119,097	$ 1,372	$ 120,469
2024	119,667	801	120,468
2025	78,948	267	79,215
2026	15,710	42	15,752
2027	1,493	4	1,497
Total	$ 334,915	$ 2,486	$ 337,401

NOTE 7: DEFINED BENEFIT PENSION PLAN

A. General information about the pension plan

Plan description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under generally accepted accounting principles. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 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.

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Benefits provided, (continued)

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plan's provisions and benefits in effect at June 30, 2022 are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employer contribution rates	13.35%	7.59%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and 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. Employer Contributions to the Plan for the fiscal year ended June 30, 2022 were $970,494. The actual employer payments of $911,046 made to CalPERS by the District during the measurement period ended June 30, 2021 differed from the District's proportionate share of the employer's contributions of $925,144 by $14,098, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

B. Net pension liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial methods and assumptions used to determine total pension liability

All other actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method:	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varied by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter.

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

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.

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Long-term expected rate of return, (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

Asset Class[1]	New Strategic Allocation	Real Return Years 1 - 10[2]	Real Return Years 11+[3]
Public equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	-	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	(0.92%)
Total	100%		

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

[2] An expected inflation of 2.00% used for this period

[3] An expected inflation of 2.92% used for this period

Change of assumptions

There were no change of assumptions for measurement date June 30, 2021.

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Discount rate

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

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.

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.

Pension plan fiduciary net position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

C. Proportionate share of net pension liability

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2020 (Valuation Date)	$ 26,214,266	$ 19,068,962	$ 7,145,304
Balance at: 6/30/2021 (Measurement Date)	27,491,247	23,521,661	3,969,586
Net Changes during 2020-21	1,276,981	4,452,699	(3,175,718)

Valuation Date (VD), Measurement Date (MD)

The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov.

The District's proportionate share of the net pension liability for the Miscellaneous Plan as of the June 30, 2020 and 2021 measurement dates was as follows:

Proportionate share - MD June 30, 2020	0.16940%
Proportionate share - MD June 30, 2021	0.20906%
Change - Increase (Decrease)	0.03966%

Sensitivity of the proportionate share of the Net Pension Liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability of the Miscellaneous Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability	$ 7,599,280	$ 3,969,586	$ 968,969

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Amortization of deferred outflows and deferred inflows of resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net Difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives (EARSL) of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for PERF C for the measurement period ending June 30, 2021 is 3.7 years, which was obtained by dividing the total service years of 561,622 (the sum of remaining service lifetimes of the active employees) by 150,548 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

D. Pension expense and deferred outflows and deferred inflows of resources related to pensions

As of the start of the measurement period (July 1, 2020), the District's net pension liability was $7,145,304. For the measurement period ending June 30, 2021 (the measurement date), the District incurred a pension expense of $1,555,074.

NOTE 7: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

As of June 30, 2021, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 445,146	$ -
Difference Between Projected and Actual Earnings on Pension Plan Investments	-	3,465,238
Change in Employer's Proportion	-	397,236
Difference in Actual vs Projected Contributions	213,733	10,288
Pension Contributions Subsequent to Measurement Date	970,494	-
Total	**$ 1,629,373**	**$ 3,872,762**

The amounts above are net of outflows and inflows recognized in the 2020-21 measurement period expense. Contributions subsequent to the measurement date of $970,494 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended December 31:	Deferred Outflows/(Inflows) of Resources
2023	$ (673,089)
2024	(747,622)
2025	(835,559)
2026	(957,613)
2027	-

E. Payable to the pension plan

At June 30, 2022, the District reported a payable of $-0- for the outstanding amount of contributions to the pension plan required for the year then ended.

NOTE 8: NET POSITION CLASSIFICATIONS

Net position in the statement of net position is classified as (1) net investment in capital assets, (2) restricted, or (3) unrestricted. The details of net position as of June 30, 2022 are presented below:

	Water		Sewer	Balance
Net investment in capital assets:				
Capital assets, net of accumulated depreciation	$ 65,088,562		$ 70,068,817	$ 135,157,379
Less capital related debt balances	(450,754)		(7,181,526)	(7,632,280)
Total net investment in capital assets	64,637,808		62,887,291	127,525,099
Restricted for:				
Debt reserve	-		302,510	302,510
Total restricted	-		302,510	302,510
Unrestricted:				
Designated for:				
Capital reserve	25,413,946	*	14,734,887	40,148,833
Self-insurance	108,000		42,000	150,000
Undesignated	-		3,743,756	3,743,756
Total unrestricted	25,521,946		18,520,643	44,042,589
Total net position	$ 90,159,754		$ 81,710,444	$ 171,870,198

*Targeted Water capital reserve designated by the board was $25,837,838 as of June 30, 2022. However, only $25,413,946 was available to be designated.

NOTE 9: DEFERRED COMPENSATION AGREEMENT

The District offers its employees a deferred compensation plan (DC Plan) created in accordance with Internal Revenue Code Section 457. The DC Plan, available to all of the District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

All amounts of compensation deferred under the DC Plan are held in trust and are not subject to the creditors of the District. Accordingly, the assets and liabilities of the DC Plan are not reflected on these financial statements.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Grant awards

The District has received funds for specific purposes that are subject to review and audit by the grantors. Although such audits could generate expenditure disallowances under terms of the grants or contracts, management believes that any required reimbursements will not be material.

Litigation

Legal claims and lawsuits arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the District's financial position.

Refunding agreements

Refunding agreements are amounts due to developers for water and sewer systems donated to the District. Refunds are based on new connections to each system. The District is not liable for amounts not refunded at the expiration of an agreement.

The District has entered into agreements to partially reimburse developers for payments made to construct water and/or sewer lines donated to the District. Reimbursements are made from the front footage charges collected by the District when new connections are made to the lines.

NOTE 11: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters. It 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 the 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.

On June 30, 2022, the District participated in the self-insurance program 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 $7,386,985), with deductibles ranging from $2,500 to $100,000.

General, Auto and Public Officials Errors and Omissions Liability – The Insurance Authority has pooled self-insurance up to $5,000,000 and has purchased excess insurance coverage up to $55,000,000.

NOTE 11: RISK MANAGEMENT, (CONTINUED)

Cyber Liability – The Insurance Authority has pooled self-insurance up to $3,000,000 per occurrence subject to a $5,000,000 aggregate limit.

Fidelity: Public Employee Dishonesty, Forgery or Alteration, Computer Fraud & ERISA – The Insurance Authority has pooled self-insurance up to $1,000,000 per occurrence, with $1,000 deductible.

Workers' Compensation – The Insurance Authority has pooled self-insurance up to $2,000,000 each for workers' compensation and employers' liability. The employers' liability is insured up to $2,000,000, in excess of $2,000,000 Self-Insured Retention. Workers' compensation is insured up to the statutory limit.

There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

(This page intentionally left blank.)

Required Supplementary Information

(This page intentionally left blank.)

Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date
Last 10 Years*

Measurement date	Employer's proportion of the collective net pension liability [1]	Employer's proportionate share of the collective net pension liability	Covered payroll	Employer's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	Pension plan's fiduciary net position as a percentage of the total pension liability
June 30, 2015	0.085197%	$ 5,847,823	$ 2,604,796	224.50%	69.65%
June 30, 2016	0.076692%	6,636,212	2,583,022	256.92%	67.04%
June 30, 2017	0.072935%	7,233,188	2,828,491	255.73%	67.25%
June 30, 2018	0.070742%	6,816,901	3,130,723	217.74%	70.50%
June 30, 2019	0.068262%	6,994,867	3,321,379	210.60%	71.39%
June 30, 2020	0.065671%	7,145,304	3,803,501	187.86%	72.74%
June 30, 2021	0.073398%	3,969,586	4,042,901	98.19%	85.56%

[1] Proportion of the collective net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

* Historical information is required only for measurement periods for which it is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Schedule of Pension Plan Contributions
Last 10 Years*

Fiscal year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a Percentage of Covered Payroll
June 30, 2016	$ 810,210	$ (810,210)	$ -	$ 2,583,022	31.37%
June 30, 2017	879,168	(879,168)	-	2,828,491	31.08%
June 30, 2018	953,145	(953,145)	-	3,130,723	30.44%
June 30, 2019	1,027,933	(1,027,933)	-	3,321,379	30.95%
June 30, 2020	1,167,827	(1,167,827)	-	3,803,501	30.70%
June 30, 2021	911,046	(911,046)	-	4,042,901	22.53%
June 30, 2022	970,494	(970,494)	-	4,066,480	23.87%

Notes to Schedule:

Changes in Benefit Terms: There were no changes to benefit terms that applied to all members of the Public Agency Pool. Additionally, the figures above do not include any liability impact that may have resulted from Golden Handshakes that occurred after the June 30, 2020 valuation date, unless the liability impact is deemed to be material to the Public Agency Pool.

Changes in Assumptions: There were no assumption changes for 2021. For 2020, the Plan adopted a new amortization policy effective with the 2019 actuarial valuation. The new amortization policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes apply only to new UAL bases established on or after June 30, 2019. There were no changes in assumptions in 2019. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate in 2019. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes in the discount rate. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* Historical information is required only for measurement periods for which it is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Draft
Subject to Change

Supplementary Information

(This page intentionally left blank.)

Schedule of Operating Expenses by Natural Classification
For the Year Ended June 30, 2022

	Water	Sewer	Total
OPERATING EXPENSES			
Salaries and wages	$ 2,870,894	$ 1,545,852	$ 4,416,746
Employee benefits	2,145,085	1,103,108	3,248,193
Bank and administrative charges	114,177	52,888	167,065
Materials and supplies	698,979	213,369	912,348
Equipment rental	3,295	1,526	4,821
Outside services	1,136,722	1,075,868	2,212,590
Ground water replenishment fees	52,902	-	52,902
Utilities	1,695,543	314,145	2,009,688
Directors' fees	19,668	9,110	28,778
Engineering	51,565	-	51,565
Insurance	150,168	69,559	219,727
Penalties	22,034	10,206	32,240
Professional services	695,904	322,347	1,018,251
Office expense	51,749	23,970	75,719
Repairs and maintenance	16,568	6,101	22,669
Standby reports	8,855	2,645	11,500
Dues and subscriptions	2,517	2,414	4,931
Permits	49,831	84,178	134,009
Training and conferences	46,472	22,365	68,837
Depreciation	2,300,478	1,794,225	4,094,703
Total operating expenses	$ 12,133,406	$ 6,653,876	$ 18,787,282

Schedule of Principal and Interest Repayments
Note Payable - Assessment District #4 Special Assessment Bonds, Series R-1

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 4,000
7/2/22	11.375%	228	4,000	4,228	-
		$ 228	$ 4,000	$ 4,228	$ -

Schedule of Principal and Interest Repayments
Note Payable - Assessment District #7 Special Assessment Bonds

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 45,000
7/2/22	7.250%	1,631	14,000	15,631	31,000
1/2/23	7.250%	1,123	-	1,123	31,000
7/2/23	7.250%	1,123	15,000	16,123	16,000
1/2/24	7.250%	580	-	580	16,000
7/2/24	7.250%	580	16,000	16,580	-
		$ 5,037	$ 45,000	$ 50,037	$ -

Schedule of Principal and Interest Repayments
Note Payable – Certificated of Participation – United States Department of Agriculture

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 238,001
8/1/22	4.500%	5,355	-	5,355	238,001
2/1/23	4.500%	5,355	8,200	13,555	229,801
8/1/23	4.500%	5,171	-	5,171	229,801
2/1/24	4.500%	5,171	8,600	13,771	221,201
8/1/24	4.500%	4,977	-	4,977	221,201
2/1/25	4.500%	4,977	8,900	13,877	212,301
8/1/25	4.500%	4,777	-	4,777	212,301
2/1/26	4.500%	4,777	9,400	14,177	202,901
8/1/26	4.500%	4,565	-	4,565	202,901
2/1/27	4.500%	4,565	9,800	14,365	193,101
8/1/27	4.500%	4,345	-	4,345	193,101
2/1/28	4.500%	4,345	10,200	14,545	182,901
8/1/28	4.500%	4,115	-	4,115	182,901
2/1/29	4.500%	4,115	10,700	14,815	172,201
8/1/29	4.500%	3,875	-	3,875	172,201
2/1/30	4.500%	3,875	11,100	14,975	161,101
8/1/30	4.500%	3,625	-	3,625	161,101
2/1/31	4.500%	3,625	11,600	15,225	149,501
8/1/31	4.500%	3,364	-	3,364	149,501
2/1/32	4.500%	3,364	12,200	15,564	137,301
8/1/32	4.500%	3,089	-	3,089	137,301
2/1/33	4.500%	3,089	12,700	15,789	124,601
8/1/33	4.500%	2,804	-	2,804	124,601
2/1/34	4.500%	2,804	13,300	16,104	111,301
8/1/34	4.500%	2,504	-	2,504	111,301
2/1/35	4.500%	2,504	13,900	16,404	97,401
8/1/35	4.500%	2,192	-	2,192	97,401
2/1/36	4.500%	2,192	14,500	16,692	82,901
8/1/36	4.500%	1,865	-	1,865	82,901
2/1/37	4.500%	1,865	15,200	17,065	67,701
8/1/37	4.500%	1,523	-	1,523	67,701
2/1/38	4.500%	1,523	15,800	17,323	51,901
8/1/38	4.500%	1,168	-	1,168	51,901
2/1/39	4.500%	1,168	16,500	17,668	35,401
8/1/39	4.500%	797	-	797	35,401
2/1/40	4.500%	797	17,300	18,097	18,101
8/1/40	4.500%	407	-	407	18,101
2/1/41	4.500%	407	18,101	18,508	-
		$ 121,036	$ 238,001	$ 359,037	$ -

Schedule of Principal and Interest Repayments
Note Payable – Installment Sale Agreement
Assessment District #12, Phase I and Phase II - Refinance

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 1,225,518
9/21/22	2.90%	17,770	127,230	145,000	1,098,288
3/21/23	2.90%	15,925	129,075	145,000	969,213
9/21/23	2.90%	14,054	130,946	145,000	838,267
3/21/24	2.90%	12,155	132,845	145,000	705,422
9/21/24	2.90%	10,229	134,771	145,000	570,651
3/21/25	2.90%	8,274	136,726	145,000	433,925
9/21/25	2.90%	6,292	138,708	145,000	295,217
3/21/26	2.90%	4,281	140,719	145,000	154,498
9/21/26	2.90%	2,240	50,760	53,000	103,738
3/21/27	2.90%	1,504	51,496	53,000	52,242
9/21/27	2.90%	758	52,242	53,000	-
		$ 93,482	$ 1,225,518	$ 1,319,000	$ -

Schedule of Principal and Interest Repayments
Note Payable – Installment Sale Agreement
Mission Creek – 80 Acres

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 212,753
12/7/22	4.190%	4,465	7,726	12,191	205,027
6/7/23	4.190%	4,303	7,888	12,191	197,139
12/7/23	4.190%	4,138	8,053	12,191	189,086
6/7/24	4.190%	3,969	8,222	12,191	180,864
12/7/24	4.190%	3,797	8,394	12,191	172,470
6/7/25	4.190%	3,621	8,570	12,191	163,900
12/7/25	4.190%	3,442	8,749	12,191	155,151
6/7/26	4.190%	3,259	8,932	12,191	146,219
12/7/26	4.190%	3,071	9,120	12,191	137,099
6/7/27	4.190%	2,880	9,311	12,191	127,788
12/7/27	4.190%	2,685	9,506	12,191	118,282
6/7/28	4.190%	2,486	9,705	12,191	108,577
12/7/28	4.190%	2,283	9,908	12,191	98,669
6/7/29	4.190%	2,075	10,116	12,191	88,553
12/7/29	4.190%	1,863	10,328	12,191	78,225
6/7/30	4.190%	1,647	10,544	12,191	67,681
12/7/30	4.190%	1,426	10,765	12,191	56,916
6/7/31	4.190%	1,201	10,990	12,191	45,926
12/7/31	4.190%	1,078	11,113	12,191	34,813
6/7/32	4.190%	710	11,481	12,191	23,332
12/7/32	4.190%	568	11,623	12,191	11,709
6/7/33	4.190%	482	11,709	12,191	-
		$ 55,449	$ 212,753	$ 268,202	$ -

Schedule of Principal and Interest Repayments
State Revolving Fund Assessment District #12, Phase IV

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 3,160,201
1/31/23	2.200%	69,525	232,985	302,510	2,927,216
1/31/24	2.200%	64,399	238,111	302,510	2,689,105
1/31/25	2.200%	59,160	243,350	302,510	2,445,755
1/31/26	2.200%	53,807	248,703	302,510	2,197,052
1/31/27	2.200%	48,335	254,175	302,510	1,942,877
1/31/28	2.200%	42,743	259,767	302,510	1,683,110
1/31/29	2.200%	37,029	265,481	302,510	1,417,629
1/31/30	2.200%	31,188	271,322	302,510	1,146,307
1/31/31	2.200%	25,219	277,291	302,510	869,016
1/31/32	2.200%	19,118	283,392	302,510	585,624
1/31/33	2.200%	12,884	289,626	302,510	295,998
1/31/34	2.200%	6,512	295,998	302,510	-
		$ 469,919	$ 3,160,201	$ 3,630,120	$ -

Schedule of Principal and Interest Repayments
Note Payable – Installment Sale Agreement
Assessment District #12, Phase V

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 835,463
9/2/22	4.100%	17,127	28,796	45,923	806,667
3/2/23	4.100%	16,537	29,386	45,923	777,281
9/2/23	4.100%	15,935	29,988	45,923	747,293
3/2/24	4.100%	15,320	30,603	45,923	716,690
9/2/24	4.100%	14,692	31,231	45,923	685,459
3/2/25	4.100%	14,052	31,871	45,923	653,588
9/2/25	4.100%	13,399	32,524	45,923	621,064
3/2/26	4.100%	12,732	33,191	45,923	587,873
9/2/26	4.100%	12,051	33,872	45,923	554,001
3/2/27	4.100%	11,358	34,565	45,923	519,436
9/2/27	4.100%	10,648	35,275	45,923	484,161
3/2/28	4.100%	9,926	35,997	45,923	448,164
9/2/28	4.100%	9,188	36,735	45,923	411,429
3/2/29	4.100%	8,434	37,489	45,923	373,940
9/2/29	4.100%	7,666	38,257	45,923	335,683
3/2/30	4.100%	6,882	39,041	45,923	296,642
9/2/30	4.100%	6,081	39,842	45,923	256,800
3/2/31	4.100%	5,265	40,658	45,923	216,142
9/2/31	4.100%	4,431	41,492	45,923	174,650
3/2/32	4.100%	3,581	42,342	45,923	132,308
9/2/32	4.100%	2,712	43,211	45,923	89,097
3/2/33	4.100%	1,827	44,096	45,923	45,001
9/2/33	4.100%	922	45,001	45,923	-
		$ 220,766	$ 835,463	$ 1,056,229	$ -

Schedule of Principal and Interest Repayments
Note Payable – Installment Sale Agreement
Assessment District #12, Phase VI

Date	Interest Rate	Interest Due	Principal Payment	Total Debt Service	Balance Principal Unpaid
6/30/22		$ -	$ -	$ -	$ 1,911,344
9/2/22	3.950%	37,749	59,864	97,613	1,851,480
3/2/23	3.950%	36,567	61,046	97,613	1,790,434
9/2/23	3.950%	35,361	62,252	97,613	1,728,182
3/2/24	3.950%	34,132	63,481	97,613	1,664,701
9/2/24	3.950%	32,878	64,735	97,613	1,599,966
3/2/25	3.950%	31,600	66,013	97,613	1,533,953
9/2/25	3.950%	30,296	67,317	97,613	1,466,636
3/2/26	3.950%	28,966	68,647	97,613	1,397,989
9/2/26	3.950%	27,610	70,003	97,613	1,327,986
3/2/27	3.950%	26,228	71,385	97,613	1,256,601
9/2/27	3.950%	24,818	72,795	97,613	1,183,806
3/2/28	3.950%	23,380	74,233	97,613	1,109,573
9/2/28	3.950%	21,914	75,699	97,613	1,033,874
3/2/29	3.950%	20,419	77,194	97,613	956,680
9/2/29	3.950%	18,894	956,680	975,574	-
		$ 430,812	$ 1,911,344	$ 2,342,156	$ -

Statistical Section