Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2021 and 2020

Hemet, California

Mission Statement

The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient and responsible manner, now and into the future.

Board of Directors as of June 30, 2021

Name		Title	Elected/ Appointed	Current Term
Todd A. Foutz	Division III	President	Elected	01/2019 - 12/2022
Steven A. Pastor	Division V	Vice-President	Appointed	01/2021 - 12/2025
Frank D. Marshall III	Division I	Secretary/Treasurer	Elected	01/2021 - 12/2025
Larry Minor	Division IV	Director	Elected	01/2019 - 12/2022
David Jorgenson	Division II	Director	Elected	01/2021 - 12/2025

Michael A. Gow, General Manager
Lake Hemet Municipal Water District
26385 Fairview Avenue
Hemet, California 92544
(951) 658-3241 – www.lhmwd.org

Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2021 and 2020

Lake Hemet Municipal Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2021 and 2020

Table of Contents

Introductory Section

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www.lhmwd.org

January 20, 2022

Board of Directors
Lake Hemet Municipal Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Lake Hemet Municipal Water District (District) for the fiscal years ended June 30, 2021 and 2020, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe to be necessary to enhance the understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, the District's audited basic financial statements with accompanying Notes, and Supplemental Information.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Lake Hemet Municipal Water District employs a full-time staff of 47 employees.

District Structure and Leadership, continued

The District's Board of Directors meets on the 3rd Thursday of each of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District is located in Riverside County, California and covers an area of approximately 26 square miles, providing water distribution and sewage collection within its boundaries to the communities of Hemet, San Jacinto, and adjacent unincorporated areas of Riverside County. The customer base is approximately 95% residential, 1% agricultural and 4% commercial. The District currently provides water to over 14,180 connections and receives its water supply from four sources 1) local ground water, 2) Lake Hemet, 3) stream flow when available, 4) Eastern Municipal Water District who in turn purchases from Metropolitan Water District and 5) leased ground water wells.

Economic Condition and Outlook

The District's administrative office is located in the unincorporated area of Riverside County, Valle Vista. The inland area has witnessed a slow economic recovery after several years of severe recessionary pressures.

California's water supply continues to be a concern due to projected population increases and a decrease in water supply levels. This concern has increased interest in conservation and in irrigation methods and systems.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient, and responsible manner, now and into the future."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain, and upgrade the water and wastewater systems facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Internal Control Structure

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

Budgetary Control

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

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield.

Water and Sewer Rates and District Revenues

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

Audit and Financial Reporting

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

Other References

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

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Lake Hemet Municipal Water District's fiscal policies.

Respectfully submitted,

Michael Gow General Manager/Chief Engineer	LeAnn Markham Administrative Services Manager

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Financial Section

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
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Independent Auditor's Report

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Hemet Municipal Water District (District), which comprises the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lake Hemet Municipal Water District, as of June 30, 2021 and 2020, and the respective changes in net position, and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 and the required supplementary information on pages 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, and the supplemental information schedules on pages 55 through 57, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are 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 audits 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 supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 58 and 59.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 20, 2022

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Lake Hemet Municipal Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2021 and 2020. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2021, the District's net position increased 15.04% or $8,475,138 to $64,815,387, primarily due to net income of $7,655,985 from ongoing operations and $819,153 in capital contributions. In fiscal year 2020, the District's net position increased 4.34% or $2,342,198 to $56,340,249, primarily due to net income of $2,296,129 from operations and $46,069 in capital contributions.
- Total revenues increased 0.93% or $208,076 to $22,648,322. In fiscal year 2020, the District's total revenues increased 5.54% or $1,178,003 to $22,440,246.
- Operating revenue increased 3.63% or $701,102 to $20,014,820. In fiscal year 2020, the District's operating revenue increased 5.11% or $938,971 to $19,313,718.
- Non-operating revenue decreased 15.77% or $493,026 to $2,633,502. In fiscal year 2020, the District's non-operating revenue increased 8.28% or $239,032 to $3,126,528.
- Total expenses decreased 25.57% or $5,151,780 to $14,992,337. In fiscal year 2020, the District's total expenses increased 11.16% or $2,022,477 to $20,144,117.
- Operating expense decreased 32.54% or $5,267,039 to $10,917,044. In fiscal year 2020, the District's operating expense increased 11.73% or $1,689,553 to $16,184,083.
- Non-operating expense increased 16.45% or $115,128 to $815,046. In fiscal year 2020, the District's non-operating expense decreased 17.98% or $153,474 to $699,918.

Required Financial Statements

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

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net change in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These two statements report the District's *net position* and changes in it. One can think of the District's net position (assets and deferred outflows of resources, less liabilities and deferred inflows of resources), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 17 through 51.

Statement of Net Position

Condensed Statements of Net Position

		2021	2020	Change	2019	Change
Assets:						
Current assets	$	35,113,324	31,578,139	3,535,185	29,695,830	1,882,309
Non-current assets		230,000	237,500	(7,500)	245,000	(7,500)
Capital assets, net		51,171,897	51,746,130	(574,233)	53,602,667	(1,856,537)
Total assets		86,515,221	83,561,769	2,953,452	83,543,497	18,272
Deferred outflows of resources		2,954,232	3,004,085	(49,853)	2,448,521	555,564
Liabilities:						
Current liabilities		3,772,549	3,483,341	289,208	4,541,895	(1,058,554)
Non-current liabilities		20,035,769	25,774,400	(5,738,631)	26,925,694	(1,151,294)
Total liabilities		23,808,318	29,257,741	(5,449,423)	31,467,589	(2,209,848)
Deferred inflows of resources		845,748	967,864	(122,116)	526,378	441,486
Net position:						
Net investment in capital assets		44,815,654	38,930,042	5,885,612	39,318,384	(388,342)
Restricted		756,632	1,306,266	(549,634)	2,500,822	(1,194,556)
Unrestricted		19,243,101	16,103,941	3,139,160	12,178,845	3,925,096
Total net position	$	64,815,387	56,340,249	8,475,138	53,998,051	2,342,198

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by $64,815,387 and $56,340,249 and as of June 30, 2021 and 2020, respectively. The District's total net position is made up of three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted.

Statement of Net Position, continued

By far the largest portion of the District's net position (69.14% and 69.10% as of June 30, 2021 and 2020, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2021 and 2020, the District showed a positive balance in its unrestricted net position of $19,243,101 and $16,103,941, respectively, which may be utilized in future years. See note 9 for further information.

Statement of Revenues, Expenses and Changes in Net Position

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

	2021	2020	Change	2019	Change
Revenue:					
Operating revenues	$ 20,014,820	19,313,718	701,102	18,374,747	938,971
Non-operating revenue	2,633,502	3,126,528	(493,026)	2,887,496	239,032
Total revenue	22,648,322	22,440,246	208,076	21,262,243	1,178,003
Expense:					
Operating expense	10,917,044	16,184,083	(5,267,039)	14,485,530	1,698,553
Depreciation	3,260,247	3,260,116	131	2,782,718	477,398
Non-operating expense	815,046	699,918	115,128	853,392	(153,474)
Total expense	14,992,337	20,144,117	(5,151,780)	18,121,640	2,022,477
Net income before capital contributions	7,655,985	2,296,129	5,359,856	3,140,603	(844,474)
Capital contributions	819,153	46,069	773,084	21,624	24,445
Changes in net position	8,475,138	2,342,198	6,132,940	3,162,227	(820,029)
Net position – beginning of period	56,340,249	53,998,051	2,342,198	50,835,824	3,162,227
Net position – end of period	$ 64,815,387	56,340,249	8,475,138	53,998,051	2,342,198

A closer examination of the sources of changes in net position reveal that:

In fiscal year 2021, the District's net position increased 15.04% or $8,475,138 to $64,815,387, primarily due to net income of $7,655,985 from operations and $819,153 in capital contributions. In fiscal year 2020, the District's net position increased 4.34% or $2,342,198 to $56,340,249, primarily due to net income of $2,296,129 from operations and $46,069 in capital contributions.

In fiscal year 2021, the District's total revenues increased 0.93% or $208,076 to $22,648,322. Operating revenues increased 3.63% or $701,102 to $20,014,820, primarily due to increases of $546,778 in water consumption sales and $228,582 in water surcharges and assessments which was offset by decreases of and $60,384 in other charges. Non-operating revenues decreased 15.77% or $493,026 to $2,633,502, primarily due to decreases of $463,640 in investment earnings, $167,831 in other non-operating revenue, and $32,076 in gain on disposal of capital assets, which were offset by increases of $123,422 in property taxes and $47,610 in earnings from Lake Hemet Campground operations.

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

In fiscal year 2020, the District's total revenues increased 5.54% or $1,178,003 to $22,440,246. Operating revenues increased 5.11% or $938,971 to $19,313,718, primarily due to increases of $1,156,732 in water consumption sales, which were offset by decreases of $121,644 in water surcharges and assessments and $102,842 in other charges. Non-operating revenues increased 8.28% or $239,032 to $3,126,528, primarily due to increases of $167,831 in other non-operating revenue, $60,397 in property taxes, and $16,133 in earnings from Lake Hemet Campground operations, which were offset by a decrease of $10,492 in gain on disposal of capital assets.

In fiscal year 2021, the District's total expenses decreased 25.57% or $5,151,780 to $14,992,337. Operating expenses decreased 32.54% or $5,267,039 to $10,917,044 primarily due to decreases of $4,684,323 in source of supply due to the Soboba recharge water purchase in the prior year, $1,334,837 in general and administrative expense due to the effect of GASB 68 pension adjustments, $80,413 in treatment expense, and $59,716 in transmission and distribution, which were offset by increases of $664,060 in sewer expense and $238,297 in pumping expense. Non-operating expenses increased 16.45% or $115,128 to $815,046, primarily due to increases of $315,353 in loss on disposition of capital assets, $121,491 in other non-operating expense, net, which were offset by a decrease of $321,716 in interest expense on long-term debt, due to the pay-off of the Series 2010 bond.

In fiscal year 2020, the District's total expenses increased 11.16% or $2,022,477 to $20,144,117. Operating expenses increased 11.73% or $1,689,553 to $16,184,083 primarily due to increases of $1,156,031 in general and administrative expense, $629,788 in source of supply, and $165,999 in treatment expense, which were offset by decreases of $114,630 in transmission and distribution, $76,191 in pumping expense, $37,248 in sewer expense, and $25,196 in customer accounts expense. Non-operating expenses decreased 17.98% or $153,474 to $699,918, primarily due to a decrease of $115,115 in other non-operating expense, net and $38,359 in interest expense related to long-term debt.

Capital Assets Administration

Changes in capital assets for 2021 were as follows:

	Balance 2020	Reclassification/ Additions	Transfers/ Deletions	Balance 2021
Non-depreciable assets	$ 1,241,712	2,584,937	(2,196,465)	1,630,184
Depreciable assets	109,605,469	2,691,995	(3,021,142)	109,276,322
Accumulated depreciation	(59,101,051)	(3,260,247)	2,626,689	(59,734,609)
Total capital assets, net	$ 51,746,130	2,016,685	(2,590,918)	51,171,897

Major capital asset additions during the year included upgrades to the following categories: water distribution and transmission systems; pumping and purification; fire hydrants, services and meters; sewer system; general equipment and buildings; dams, wells and reservoirs; and campground installation structures and grounds. See note 4 for further information.

Capital Assets Administration, continued

Changes in capital assets for 2020 were as follows:

		Balance 2019	Reclassification/ Additions	Transfers/ Deletions	Balance 2020
Non-depreciable assets	$	2,256,010	600,953	(1,615,251)	1,241,712
Depreciable assets		107,647,575	2,440,134	(482,240)	109,605,469
Accumulated depreciation		(56,300,918)	(3,260,116)	459,983	(59,101,051)
Total capital assets, net	$	53,602,667	(219,029)	(1,637,508)	51,746,130

Major capital asset additions during the year included upgrades to the District's following categories: fire hydrants, services and meters; dams, wells, and reservoirs; pumping and purification; and general equipment. See note 4 for further information.

At the end of fiscal years 2021 and 2020, the District's investment in capital assets net of accumulated depreciation amounted to $51171,897 and $51,746,130, respectively. This investment in capital assets includes land, transmission and distribution systems, collection systems, buildings and structures, equipment, and vehicles, etc.

Debt Administration

Changes in long-term debt for 2021 were as follows:

		Balance 2020	Additions	Principal Payments	Balance 2021
Notes payable	$	4,755,362	-	(213,497)	4,541,865
Loan payable		1,104,782	-	(235,404)	869,378
Bond payable		1,020,000	-	(75,000)	945,000
COP's payable		6,465,000	-	(6,465,000)	-
Total long-term debt	$	13,345,144	-	(6,988,901)	6,356,243

Changes in long-term debt for 2020 were as follows:

		Balance 2019	Additions	Principal Payments	Balance 2020
Notes payable	$	5,747,404	-	(992,042)	4,755,362
Loan payable		1,334,525	-	(229,743)	1,104,782
Bond payable		1,090,000	-	(70,000)	1,020,000
COP's payable		6,635,000	-	(170,000)	6,465,000
Total long-term debt	$	14,806,929	-	(1,461,785)	13,345,144

See note 6 for further information.

Conditions Affecting Current Financial Position

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

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

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the General Manager, Michael Gow at Lake Hemet Municipal Water District, 26385 Fairview Avenue Hemet, California 92544 or (951) 658-3241.

Basic Financial Statements

Lake Hemet Municipal Water District
Statements of Net Position
June 30, 2021 and 2020

		2021	2020
Current assets:			
Cash and cash equivalents (note 2)	$	26,202,129	20,444,561
Cash and cash equivalents – restricted (note 2)		515,865	1,056,312
Investments (note 2)		3,932,293	5,815,076
Accrued interest receivable		9,803	23,707
Accounts receivable – water sales, net		3,609,728	3,494,737
Property taxes and assessments receivable		72,352	77,050
Property taxes and assessments receivable – restricted		3,267	4,954
Note receivable – restricted (note 3)		7,500	7,500
Materials and supplies inventory		328,455	269,842
Prepaid expenses and other assets		431,932	384,400
Total current assets		35,113,324	31,578,139
Non-current assets:			
Note receivable – restricted (note 3)		230,000	237,500
Capital assets – not being depreciated (note 4)		1,630,184	1,241,712
Depreciable capital assets, net (note 4)		49,541,713	50,504,418
Total non-current assets		51,401,897	51,983,630
Total assets		86,515,221	83,561,769
Deferred outflows of resources			
Deferred other post-employment benefits outflows (note 7)		407,818	444,707
Deferred pension outflows (note 8)		2,546,414	2,559,378
Total deferred outflows of resources	$	2,954,232	3,004,085

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Net Position, continued
June 30, 2021 and 2020

		2021	2020
Current liabilities:			
Accounts payable and accrued expenses	$	2,321,636	1,624,103
Accrued salaries and related payables		164,967	159,069
Customer deposits		558,425	699,700
Accrued interest payable – restricted		21,115	133,541
Long-term liabilities – due within one year:			
Compensated absences (note 5)		163,250	163,027
Notes payable (note 6)		222,122	213,497
Loan payable (note 6)		241,034	235,404
Bonds payable (note 6)		80,000	75,000
Certificates of Participation (note 6)		-	180,000
Total current liabilities		3,772,549	3,483,341
Non-current liabilities:			
Unearned revenue – construction deposits		158,677	90,932
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)		244,876	244,541
Notes payable (note 6)		4,319,743	4,541,865
Loan payable (note 6)		628,344	869,378
Bonds payable (note 6)		865,000	945,000
Certificates of Participation (note 6)		-	6,285,000
Total other post-employment benefits liability (note 7)		2,324,407	2,219,137
Net pension liability (note 8)		11,494,722	10,578,547
Total non-current liabilities		20,035,769	25,774,400
Total liabilities		23,808,318	29,257,741
Deferred inflows of resources			
Deferred other post-employment benefits inflows (note 7)		263,357	297,560
Deferred pension inflows (note 8)		582,391	670,304
Total deferred inflows of resources		845,748	967,864
Net position: (note 9)			
Net investment in capital assets		44,815,654	38,930,042
Restricted for capital projects		625,371	644,957
Restricted for debt service		131,261	661,309
Unrestricted		19,243,101	16,103,941
Total net position	$	64,815,387	56,340,249

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Water consumption sales:		
Residential and commercial	$ 13,457,821	12,535,814
Irrigation	4,067,398	4,442,627
Surcharges and assessments – water	1,477,904	1,249,322
Other charges	294,436	354,820
Sewer services	717,261	731,135
Total operating revenues	20,014,820	19,313,718
Operating expenses:		
Source of supply	1,590,430	6,274,753
Pumping	1,273,702	1,035,405
Treatment	529,911	610,324
Transmission and distribution	1,142,628	1,202,344
Customer accounts	125,740	135,847
Sewer	852,396	188,336
General and administrative	5,402,237	6,737,074
Total operating expenses	10,917,044	16,184,083
Operating income before depreciation expense	9,097,776	3,129,635
Depreciation	(3,260,247)	(3,260,116)
Operating (loss) income	5,837,529	(130,481)
Non-operating revenue (expense):		
Property taxes	1,963,733	1,840,311
Net income from Lake Hemet Campground operations	516,733	469,123
Rental income, net	101,298	101,809
Investment earnings	51,738	515,378
Interest expense	(378,202)	(699,918)
(Loss) gain on disposal of assets	(315,353)	32,076
Other non-operating revenue (expense), net	(121,491)	167,831
Total non-operating revenues, net	1,818,456	2,426,610
Net income before capital contributions	7,655,985	2,296,129
Capital contributions:		
Donations in aid of construction	735,962	15,631
Connection fees	83,191	30,438
Total capital contributions	819,153	46,069
Changes in net position	8,475,138	2,342,198
Net position, beginning of period	56,340,249	53,998,051
Net position, end of period	$ 64,815,387	56,340,249

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Receipts from customers for water sales and services	$	19,758,554	18,357,197
Payment to employees for salaries and wages		(4,206,053)	(4,148,687)
Payments to vendors for materials and services		(5,096,220)	(12,916,660)
Net cash provided by operating activities		10,456,281	1,291,850
Cash flows from non-capital financing activities:			
Property tax revenue		1,970,118	1,843,019
Net income from Lake Hemet Campground operations		516,733	469,123
Rental income, net		101,298	101,809
Other non-operating expense, net		(121,491)	167,831
Net cash provided by non-capital financing activities		2,466,658	2,581,782
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(3,001,367)	(1,371,503)
Proceeds from capital contributions		819,153	46,069
Proceeds from Beaumont concrete settlement		7,500	7,500
Principal payments on notes payable		(213,497)	(992,042)
Principal payments on loans payable		(235,404)	(229,743)
Principal payments on bonds payable		(75,000)	(70,000)
Principal payments on certificates of participation		(6,465,000)	(170,000)
Interest paid on long-term debt		(490,628)	(716,276)
Net cash used in capital and related financing activities		(9,654,243)	(3,495,995)
Cash flows from investing activities:			
Investment earnings		1,948,425	311,475
Net cash provided by investing activities		1,948,425	311,475
Net increase in cash and cash equivalents		5,217,121	689,112
Cash and cash equivalents, beginning of year		21,500,873	20,811,761
Cash and cash equivalents, end of year	$	26,717,994	21,500,873

Reconciliation of cash and cash equivalents to statements of net position:

Cash and cash equivalents	$	26,202,129	20,444,561
Cash and cash equivalents – restricted		515,865	1,056,312
Total cash and cash equivalents	$	26,717,994	21,500,873

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 5,837,529	(130,481)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,260,247	3,260,116
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable – water sales, net	(114,991)	(1,007,103)
Materials and supplies inventory	(58,613)	33,171
Prepaid expenses and other assets	(47,532)	(18,070)
Deferred other post-employment benefit outflows	36,889	(359,143)
Deferred pension outflows	12,964	(196,421)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	697,533	(765,762)
Accrued salaries and related payables	5,898	5,282
Customer deposits	(141,275)	50,582
Unearned revenue – construction deposits	67,745	(1,512,726)
Compensated absences	558	58,540
Total other post-employment benefit liability	105,270	155,616
Net pension liability	916,175	1,276,763
Deferred other post-employment benefit inflows	(34,203)	297,560
Deferred pension inflows	(87,913)	143,926
Total adjustments	4,618,752	1,422,331
Net cash provided by operating activities	$ 10,456,281	1,291,850
Non-cash investing, capital, and financing transactions:		
Change in fair-market value of investments	$ 67,744	155,912

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). Revenues and expenses are recognized on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water and sewer service charges based on cycle billings preformed monthly with the exception of the Garner Valley area which is billed on a bi-monthly basis. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

C. Financial Reporting

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

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 90

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

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

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

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

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period.

2. Uncertainty

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

3. Cash and Cash Equivalents

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

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

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

4. Investments and Investment Policy

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

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

5. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity, and other assumptions that are internally generated and cannot be observed in the market.

6. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statements of net position. The District uses restricted resources prior to using unrestricted resources to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

7. Accounts Receivable

The District extends credit to customers in the normal course of operations. When management deems a customer account uncollectable, the District uses the direct method for the write-off of those accounts.

8. Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

9. Prepaid Expenses

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

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

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

10. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $3,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Source of Supply 33.3 years
- Power Plant 33.3 years
- Pumping Equipment 20.0 years
- Water Treatment Equipment 33.3 years
- Transmission & Distribution Plant 33.3 years
- General Plant 5.0 to 33.3 years

11. Deferred Outflows of Resources

The statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and, therefore, will *not* be recognized as an outflow of resources (expenditure) until that time.

The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow for the net change in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with other post-employment benefits through the Plan.

Pensions

- Deferred outflow which is equal to employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year.
- Deferred outflow for the net difference between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension through the Plan.
- Deferred outflow for the net difference between projected and actual earnings on investments of the pension plan’s fiduciary net position. This amount is amortized over a 5-year period.
- Deferred outflow for the net change in proportion of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension through the Plan.

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

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

12. Compensated Absences

The District's policy is to permit employees to accumulate vacation at the rate of eighty (80) hours per anniversary year (6.66 hours per month) for the first five (5) years of continuous service for full-time employees. Vacation accrual increases eight (8) hours for each full year of continuous service after five (5) years until completion of ten (10) years of continuous service. After completion of eleven (11) full years of continuous service, vacation leave shall accrue at the rate of one hundred thirty-six (136) hours per year. After completion of twelve (12) years of continuous service, vacation shall accrue at the rate of one hundred sixty (160) hours per year. Vacation accrual does not vest until completion of the year for which it was earned. Vacation leave accumulation carried over from previous year shall not exceed twenty (20) days. Vacation leave shall be scheduled at the District's discretion. If an employee is unable to take vacation due to the needs of the District, the employee shall be paid for any loss of vacation time.

Sick leave shall accrue year after year above the 96 hours accrued in that year. Sick leave shall accrue at the rate of eight hours per month for full time employees commencing on January 1 of each year. Sick leave shall accrue on a pro rata basis. Employees may use sick leave prior to its accrual; however, in the event the employee is terminated or retires, employees authorize the District to deduct any paid, but unaccrued sick leave from the employees' final paycheck.

13. Pensions

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

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

- Valuation dates: June 30, 2019 and June 30, 2018
- Measurement dates: June 30, 2020 and June 30, 2019
- Measurement periods: July 1, 2019 to June 30, 2020 and July 1, 2018 to June 30, 2019

14. Deferred Inflows of Resources

The statements of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and, therefore, will not be recognized as an inflow of resources (revenue) until that time.

The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred inflow for the net change in experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with other post-employment benefits through the Plan.

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

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

14. Deferred Inflows of Resources, continued

Pensions

- Deferred inflow for the net change in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension through the Plan.
- Deferred inflow for the net difference between the actual and proportionate share of employer contribution which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension through the Plan.

15. Deposit Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District.

16. Water and Sewer Sales

The District recognizes water and sewer service charges based on cycle billings rendered to the customers on a monthly basis with the exception of the Garner Valley area which is billed on a bi-monthly basis.

17. Capital Contributions

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

18. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

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

19. Budgetary Policies

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

(2) Cash and Investments

Cash and investments as of June 30 are classified as follows:

		2021	2020
Cash and cash equivalents	$	26,202,129	20,444,561
Cash and cash equivalents – restricted		515,865	1,056,312
Investments		3,932,293	5,815,076
Total cash and investments	$	30,650,287	27,315,949

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

		2021	2020
Cash and cash equivalents:			
Cash on hand	$	1,150	1,150
Deposits with financial institutions		13,074,303	12,849,566
Cash and cash equivalents		13,075,453	12,850,716
Investments:			
Deposits held with California Local Agency Investment Fund (LAIF)		12,062,206	6,529,488
Deposits with CalTrust:			
Short Term Fund		548,683	547,092
Medium Term Fund		3,383,610	5,267,984
Total held with CalTrust		3,932,293	5,815,076
Deposits held with trustee:			
Money market		1,449,074	1,988,416
Limited obligation improvement bonds		131,261	132,253
Investments		17,574,834	14,465,233
Total cash and investments	$	30,650,287	27,315,949

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

	2021	2020
Deposits held with LAIF	291 days	191 days
Deposits held with CalTrust Short Term Fund	318 days	307 days
Deposits held with CalTrust Medium Term Fund	756 days	770 days

(2) Cash and Investments, continued

Investment in Investment Trust of California

CalTrust is organized as a Joint Powers Authority. CalTrust is a program established by public agencies in California for the purpose of pooling and investing local agency funds – operating reserves as well as bond proceeds. Any California local agency may participate in the Trust and invest its funds and, in the case of counties, the funds of other local agencies that have invested with the County Treasurer's office. Funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular account in which they invest. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolio is prohibited.

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

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	None	None	None
U.S. Agency and Sponsored Enterprise Securities	None	None	None
State Obligations			
or Political Subdivision of States	None	None	None
Bankers' Acceptances	None	None	None
Negotiable Certificates of Deposit	None	None	None
Commercial Paper	None	None	None
Guaranteed Investment Contracts	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	None	None	None
Local Agency Investment Fund - LAIF	None	None	None

The table on the following page identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

(2) Cash and Investments, continued

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	No	None	None
U.S. Agency and Sponsored Enterprise Securities	No	None	None
Bankers' Acceptances	No	40%	None
Negotiable Certificates of Deposit	No	30%	None
Commercial Paper	No	25%	None
Repurchase Agreements	No	None	None
Reverse Repurchase Agreements	No	20%	None
Medium-Term Notes	No	30%	None
Mortgage Pass-Though Securities	No	None	None
Local Agency Investment Fund - LAIF	Yes	None	$50,000,000
Local Agency Bonds	No	None	None
Mutual Funds	No	20%	None
Money Market Mutual Funds	Yes	15%	N/A
County Pooled Investment Funds	No	None	None
Joint Powers Authority (CalTRUST)	No	None	None

Investment in State Investment Pool

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

The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies.

California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000, are federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to change in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Maturities of investments at June 30, 2021, were as follows:

		Remaining Maturity	
Investment Type		**Total**	**12 Months Or Less**
Local Agency Investment Fund (LAIF)	$	12,062,206	12,062,206
CalTrust Investment Fund		3,932,293	3,932,293
Money market funds		1,449,074	1,449,074
Limited obligation improvement bonds		131,261	131,261
Total	$	17,574,834	17,574,834

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturities of investments at June 30, 2020, were as follows:

Investment Type		Remaining Maturity: Total	Remaining Maturity: 12 Months Or Less
Local Agency Investment Fund (LAIF)	$	6,529,488	6,529,488
CalTrust Investment Fund		5,815,076	5,815,076
Money market funds		1,988,416	1,988,416
Limited obligation improvement bonds		132,253	132,253
Total	$	14,465,233	14,465,233

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2021, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	12,062,206	N/A	$	-	-	12,062,206
CalTrust Investment Fund		3,932,293	AAf		-	3,932,293	-
Money market funds		1,449,074	AAA		1,449,074	-	-
Limited obligation improvement bonds		131,261	AAA		131,261	-	-
Total	$	17,574,834		$	1,580,335	3,932,293	12,062,206

Credit ratings of investments as of June 30, 2020, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	6,529,488	N/A	$	-	-	6,529,488
CalTrust Investment Fund		5,815,076	AAf		-	5,815,076	-
Money market funds		1,988,416	AAA		1,988,416	-	-
Limited obligation improvement bonds		132,253	AAA		132,253	-	-
Total	$	14,465,233		$	2,120,669	5,815,076	6,529,488

(2) Cash and Investments, continued

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis as of June 30, 2021, are as follows:

		Fair Value Measurements Using		
Investment Type	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 1,449,074	1,449,074	-	-
CalTrust Investment Fund	3,932,293	-	3,932,293	-
Held by bond trustee:				
Money market funds	131,261	131,261	-	-
Total investments measured at fair value	5,512,628	1,580,335	3,932,293	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	12,062,206			
Total	$ 17,574,834			

Investments measured at fair value on a recurring and non-recurring basis as of June 30, 2020, are as follows:

		Fair Value Measurements Using		
Investment Type	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 1,988,416	1,988,416	-	-
CalTrust Investment Fund	5,815,076	-	5,815,076	-
Held by bond trustee:				
Money market funds	132,253	132,253	-	-
Total investments measured at fair value	7,935,745	2,120,669	5,815,076	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	6,529,488			
Total	$ 14,465,233			

(3) Note Receivable, Beaumont Concrete Settlement

In 2001, the District settled a claim against Beaumont Concrete in the amount of $365,000. Terms of the settlement agreement call for annual payments to the District with the final payment due in 2046.

Changes in note receivable for June 30, 2021, were as follows:

	Balance 2020	Payments Received	Balance 2021	Current Portion	Non-Current Portion
Note receivable	$ 245,000	(7,500)	237,500	7,500	230,000

Changes in note receivable for June 30, 2020, were as follows:

	Balance 2020	Payments Received	Balance 2021	Current Portion	Non-Current Portion
Note receivable	$ 252,500	(7,500)	245,000	7,500	237,500

(4) Capital Assets

Changes in capital assets for 2021 were as follows:

	Balance 2020	Additions/ Transfers	Deletions/ Transfers	Balance 2021
Non-depreciable assets:				
Land	$ 597,925	-	-	597,925
Intangible assets	11,340	-	-	11,340
Construction-in process	632,447	2,584,937	(2,196,465)	1,020,919
Total non-depreciable assets	1,241,712	2,584,937	(2,196,465)	1,630,184
Depreciable assets:				
Capacity rights	6,705,252	-	-	6,705,252
Dams, wells, & reservoirs	9,401,288	171,128	(29,800)	9,542,616
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	6,516,973	586,386	(1,791,755)	5,311,604
Distribution & transmission	37,639,000	820,745	(33,225)	38,426,520
Fire hydrants, services, & meters	17,766,273	520,698	(50,652)	18,236,319
Buildings, structures, & grounds	10,845,735	10,100	(258,091)	10,597,744
General equipment	4,580,489	212,351	(747,809)	4,045,031
Sewers	12,924,100	317,511	-	13,241,611
Campground installations etc.	3,155,565	53,076	(109,810)	3,098,831
Total depreciable assets	109,605,469	2,691,995	(3,021,142)	109,276,322
Accumulated depreciation	(59,101,051)	(3,260,247)	2,626,689	(59,734,609)
Total depreciable assets, net	50,504,418	(568,252)	(394,453)	49,541,713
Total capital assets, net	$ 51,746,130	2,016,685	(2,590,918)	51,171,897

(4) Capital Assets, continued

Increases to capital assets in 2021 consisted primarily of additions of $2,584,937 in construction in progress, $171,128 in dams, wells, and reservoirs, $586,386 in pumping and purification, $820,745 in distribution and transmission, $520,698 in fire hydrants, services, and meters, $10,100 in buildings, structures, and grounds, $212,351 in general equipment, $317,511 in sewer improvements, and $53,076 in campground installations.

Decreases to capital assets in 2021 consisted primarily of transfers of $2,196,465 in construction in progress to depreciable assets, $29,800 in dams, wells, and reservoirs, $1,791,755 in pumping and purification, $33,225 in distribution and transmission, $50,652 in fire hydrants, services, and meters, $258,091 in buildings, structures, and grounds, $747,809 in general equipment, and $109,810 in campground installations. As a result, the District removed $2,626,689 in accumulated depreciation resulting in a loss on disposal amounting to $394,453. This loss on disposal, net of proceeds from assets sold, amounted to $315,353 loss on disposal, which is shown on the statements of revenues, expenses, and changes in net position.

Changes in capital assets for 2020 were as follows:

	Balance 2019	Reclassification	Additions/ Transfers	Deletions/ Transfers	Balance 2020
Non-depreciable assets:					
Land	$ 597,925	-	-	-	597,925
Intangible assets	11,340	-	-	-	11,340
Construction-in process	1,646,745	(32,400)	633,353	(1,615,251)	632,447
Total non-depreciable assets	2,256,010	(32,400)	633,353	(1,615,251)	1,241,712
Depreciable assets:					
Capacity rights	6,705,252	-	-	-	6,705,252
Dams, wells, & reservoirs	8,135,770	-	1,265,518	-	9,401,288
North Fork Power Plant	70,794	-	-	-	70,794
Pumping & purification	6,398,159	-	118,814	-	6,516,973
Distribution & transmission	37,639,000	-	-	-	37,639,000
Fire hydrants, services, & meters	17,594,092	-	354,400	(182,219)	17,766,273
Buildings, structures, & grounds	10,835,735	-	10,000	-	10,845,735
General equipment	4,191,043	-	689,467	(300,021)	4,580,489
Sewers	12,924,100	-	-	-	12,924,100
Campground installations etc.	3,153,630	-	1,935	-	3,155,565
Total depreciable assets	107,647,575	-	2,440,134	(482,240)	109,605,469
Accumulated depreciation	(56,300,918)	-	(3,260,116)	459,983	(59,101,051)
Total depreciable assets, net	51,346,657	-	(819,982)	(22,257)	50,504,418
Total capital assets, net	$ 53,602,667	(32,400)	(186,629)	(1,637,508)	51,746,130

Increases to capital assets in 2020 consisted primarily of additions of $633,353 in construction in progress, $1,265,518 in dams, wells, and reservoirs, $118,814 in pumping and purification, $354,400 in fire hydrants, services, and meters, $10,000 in buildings, structures, and grounds, $689,467 in general equipment, and $1,935 in campground installations.

During the fiscal year ended June 30, 2020, the District expensed $32,400 of construction-in-progress related to its Well 8A drilling project capitalized in the prior year .

(4) Capital Assets, continued

Decreases to capital assets in 2020 consisted primarily of transfers of $1,615,251 in construction in progress to depreciable assets, $300,021 in general equipment, $182,219 in fire hydrants, services, and meters. As a result, the District removed $459,983 in accumulated depreciation resulting in a loss on disposal amounting to $22,257. This loss on disposal, net of proceeds from assets sold, amounted to $32,076 gain on disposal, which is shown on the statements of revenues, expenses, and changes in net position.

(5) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave, and compensating time off. The District's liability for compensated absences is determined annually.

Changes to compensated absences for 2021, were as follows:

Balance 2020	Earned	Taken	Balance 2021	Due within One Year	Due in more than one year
$ 407,568	478,588	(478,030)	408,126	163,250	244,876

Changes to compensated absences for 2020, were as follows:

Balance 2019	Earned	Taken	Balance 2020	Due within One Year	Due in more than one year
$ 349,028	500,970	(442,430)	407,568	163,027	244,541

(6) Long-Term Debt

Changes in long-term debt for 2021 were as follows:

	Balance 2020	Additions	Payments	Balance 2021	Current Portion	Non-current Portion
Long-term debt:						
Notes payable:						
Ground Water Management Plan	$ 4,755,362	-	(213,497)	4,541,865	222,122	4,319,743
Loan payable:						
Department of Water Resources	1,104,782	-	(235,404)	869,378	241,034	628,344
Bonds payable:						
Assessment District No. 2003-1, Garner Valley	1,020,000	-	(75,000)	945,000	80,000	865,000
Certificates of Participation:						
CSDA – Series 2010	6,465,000	-	(6,465,000)	-	-	-
Total long-term debt	$ 13,345,144	-	(6,988,901)	6,356,243	543,156	5,813,087

(6) Long-Term Debt, continued

Changes in long-term debt for 2020 were as follows:

	Balance 2019	Additions	Payments	Balance 2020	Current Portion	Non-current Portion
Long-term debt:						
Notes payable:						
Ground Water Management Plan	$ 4,960,568	-	(205,206)	4,755,362	213,497	4,541,865
Municipal Finance Corporation – Admin building	786,836	-	(786,836)	-	-	-
Total notes payable	5,747,404	-	(992,042)	4,755,362	213,497	4,541,865
Loan payable:						
Department of Water Resources	1,334,525	-	(229,743)	1,104,782	235,404	869,378
Bonds payable:						
Assessment District No. 2003-1, Garner Valley	1,090,000	-	(70,000)	1,020,000	75,000	945,000
Certificates of Participation:						
CSDA – Series 2010	6,635,000	-	(170,000)	6,465,000	180,000	6,285,000
Total long-term debt	$ 14,806,929	-	(1,461,785)	13,345,144	703,901	12,641,243

Ground Water Management Plan Note Payable

In 2009, Eastern Municipal Water District (EMWD) issued $19,606,000 in bonds for capital improvements related to a regional Ground Water Management Plan. Terms of the agreement with EMWD calls for the District to service a 34.2% proportional share ($6,705,252) of the outstanding obligation. Semi-annual principal and interest payments are due January 1 and July 1, at an interest rate of 4.0%, maturing July 2035.

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2022	$ 222,122	246,528	468,650
2023	231,096	237,554	468,650
2024	240,432	228,218	468,650
2025	251,387	217,264	468,651
2026	264,156	204,494	468,650
2027-2031	1,537,189	806,063	2,343,252
2032-2036	1,795,483	311,893	2,107,376
Total	4,541,865	2,252,014	6,793,879
Less current portion	(222,122)		
Total non-current	$ 4,319,743		

(6) Long-Term Debt, continued

Department of Water Resources Loan Payable

In June 1999, the District entered into a low interest loan agreement with the California Department of Water Resources in the amount of $3,909,310 at the rate of 2.4%, to fund the replacement of 37,000 feet aged transmission pipelines and related infrastructure. Debt service payments of $130,233 are due each October 1 and April 1, maturing September 2024.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2022	$	241,034	19,432	260,466
2023		246,854	13,612	260,466
2024		252,801	7,665	260,466
2025		128,689	1,544	130,233
Total		869,378	42,253	911,631
Less current portion		(241,034)		
Total non-current	$	628,344		

Assessment District No. 2003-1, Garner Valley Bond Payable

In August 2005, the District issued $1,842,479 in limited obligation bonds at various rates, to finance the acquisition and construction of improvements benefiting properties located within the boundaries of the District's Assessment District No. 2003-1, Garner Valley. The bonds are issued upon and secured by property assessments within the Assessment District. Interest on the bonds is payable semi-annually on September 2 and March 2, at variable rates from 3.0% to 5.0%, with principal payments payable September 2, maturing September 2030.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2022	$	80,000	46,000	126,000
2023		80,000	41,875	121,875
2024		80,000	37,625	117,625
2025		85,000	33,250	118,250
2026		90,000	28,750	118,750
2027-2031		530,000	69,250	599,250
Total		945,000	256,750	1,201,750
Less current portion		(80,000)		
Total non-current	$	865,000		

(6) Long-Term Debt, continued

CSDA Finance Corporation – Certificates of Participation Series 2010

In September 2010, the District issued $7,802,976 of 2010 Series Certificates of Participation at rates ranging from 3.00% to 5.25% (averaging 5.05%), to fund a portion of the cost of the design and construction of the Pipeline Replacement Project. The project primarily consists of 120,000 feet of pipeline replacement, modification to pumping facilities, and increased water storage for fire protection within the Valley Public Water System section of the enterprise.

The Series 2010 Certificates of Participation include principal payments due in varying amounts from $135,000 to $495,000 annually from September 1, 2011 to September 1, 2040, with interest payable semi-annually beginning March 2011, and maturing in fiscal year 2040. As of June 30, 2021, the District's bond was paid-in-full.

Municipal Finance Corporation Note Payable

In March 2006, the District entered into an agreement with the Municipal Finance Corporation in the amount of $4,500,000 at the rate of 4.5%, to finance the construction of the Districts main office building and operations facility. Semi-annual debt service payments in the amount of $207,897 payable each March 10, and September 10, maturing March 2021. As of June 30, 2020, the District's note payable was paid-in-full.

(7) Other Post-Employment Benefits

Plan Description

The District's defined benefit other post-employment benefit (OPEB) Plan (Plan) provides OPEB for all permanent and vested full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The District sponsors healthcare coverage through the CalPERS Medical and Health Program. The District does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements.

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post-employment medical and dental benefits:

- Employee who retires with at least 10 years of continuous service.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits are terminated.

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. The District contributes up to $125 plus up to sixty-six $66 per month towards District retirees' health insurance premiums for those District employees who retire with ten years of service and are taking District medical insurance at the time of retirement. These payments will continue until the earlier of the death of the retiree or the retiree ceasing to be covered under the District's medical plan.

(7) Other Post-Employment Benefits, continued

Benefits Provided, continued

The following is a summary of the current retiree benefit plan:

	All Employees
Benefit types provided	Medical only
Duration of benefits	Lifetime
Required service	CalPERS Retirement
Minimum Age	CalPERS Retirement
Dependent coverage	Surviving Spouse only
District contribution %	100% to cap
District cap	Section 22892 Statutory minimum plus $50 per month*

*For those retired prior to July 1, 2012, the $50 increases $1 per year to a maximum of $66 per month.

Employees Covered by Benefit Terms

Membership in the Plan consisted of the following members as of June 30:

	2021	2020
Participating active employees	48	48
Inactive employees or beneficiaries currently receiving benefit payments	21	21
Total plan membership	69	69

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District's Board of Directors. The Board establishes rates based on an actuarially determined rate.

For the years ended June 30, the contributions were as follows:

	2021	2020
Contributions – employer	$ 40,251	45,080

The "pay as you go" cost is the cost of benefits for current retirees.

Discount Rate

At June 30, 2021 and 2020, the discount rate used to measure the total OPEB liability was 2.16% and 2.20%, respectively, which are based on the Bond Buyer 20 Bond Index. The projection of cash flows used to determine the discount rate assumed that liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees. The discount rate was set by using the historic 30-year real rates of return for each asset class along with the assumed long-term inflation assumption.

(7) Other Post-Employment Benefits, continued

Actuarial Assumptions

The District's total OPEB liability was measured as of June 2021 and 2020, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2020.

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

Valuation Date	June 30, 2020
Measurement Dates	June 30, 2021 and 2020
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Salary increases	2.75% per annum, in aggregate
Inflation	2.75%
Healthcare cost trend rates	4.00% per year
Discount rate	2021 – 2.16% per year net of expenses; the discount rate is based on the Bond Buyer 20 Bond Index. 2020 – 2.20% per year net of expenses; the discount rate is based on the Bond Buyer 20 Bond Index.
Mortality	Mortality assumptions are based on the 2017 CalPERS Active and Retiree Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables.

Changes in the Total OPEB Liability

Changes in the total OPEB liability for the years were as follows:

	Total OPEB Liability 2020-2021	Total OPEB Liability 2019-2020
Balance at beginning of year	$ 2,219,137	2,063,521
Changes during the year:		
Service cost	80,394	49,892
Interest	49,263	72,307
Contributions - employer	(40,251)	(45,080)
Experience (gains) losses	-	(331,763)
Assumption changes	15,864	410,260
Net change	105,270	155,616
Balance at end of year	$ 2,324,407	2,219,137

(7) Other Post-Employment Benefits, continued

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

The following tables present the District's total OPEB liability calculated using the discount rate, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

As of June 30, 2021, the discount rate comparison was the following:

	Discount Rate - 1% 1.16%	Current Discount Rate 2.16%	Discount Rate + 1% 3.16%
Total OPEB liability	$ 2,755,377	2,324,407	1,979,879

As of June 30, 2020, the discount rate comparison was the following:

	Discount Rate - 1% 1.20%	Current Discount Rate 2.20%	Discount Rate + 1% 3.20%
Total OPEB liability	$ 2,634,025	2,219,137	1,888,182

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

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

As of June 30, 2021, the healthcare cost trend rate comparison was the following:

	Healthcare cost trend		
	1% Decrease	Current	1% Increase
Total OPEB liability	$ 1,926,597	2,324,407	2,844,614

As of June 30, 2020, the healthcare cost trend rate comparison was the following:

	Healthcare cost trend		
	1% Decrease	Current	1% Increase
Total OPEB liability	$ 1,852,327	2,219,137	2,695,525

(7) Other Post-Employment Benefits, continued

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

For the fiscal years ended June 30, 2021 and 2020, the District recognized OPEB expense of $148,207 and $139,113, respectively.

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

	June 30, 2021		June 30, 2020	
Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Changes in assumptions	$ 407,818	-	444,707	-
Changes in experience	-	(263,357)	-	(297,560)
Total	$ 407,818	(263,357)	444,707	(297,560)

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

Fiscal Year Ending June 30	Deferred Outflows of Resources
2022	$ 18,550
2023	18,550
2024	18,550
2025	18,550
2026	18,550
Thereafter	51,711

Schedules of Changes in the District's Total OPEB Liability and Related Ratios

See page 51 for the Required Supplementary Information.

(8) Defined Benefit Pension Plan

Plan Description

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

(8) Defined Benefit Pension Plan, continued

Benefits provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District’s CalPERS 2.0% at 55 Risk Pool to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2012. All employees hired after January 1, 2013 are eligible for the District’s CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans’ provision and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Plan		
	Classic	**New Classic**	**PEPRA**
Hire date	Prior to January 1, 2011	On or after January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 service years	5 service years	5 service years
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 60	52 - 62
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%	1.0% to 2.5%
2021:			
Required employee contribution rates	6.908%	6.918%	6.750%
Required employer contribution rates	10.484%	8.794%	7.732%
2020:			
Required employee contribution rates	6.902%	6.912%	6.250%
Required employer contribution rates	8.892%	7.634%	6.842%

Contributions

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

(8) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal years ended June 30 the contributions for the Plan were as follows:

	Miscellaneous Plan	
	2021	**2020**
Contributions – employer	$ 1,109,575	958,057

Net Pension Liability

As of June 30 the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	2021	**2020**
Miscellaneous Plan	$ 11,494,722	10,578,547

The District's net pension liability for the PERF C is measured as the proportionate share of the net pension liability for the miscellaneous pool. As of June 30, 2021 and 2020, the net pension liability of the Plan is measured as of June 30, 2020 and 2019 (the measurement dates), respectively. The total pension liability for the PERF C's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and 2018 (valuation dates), rolled forward to June 30, 2020 and 2019, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportions of the pension liability for the Plan as of the measurement date June 30, were as follows:

	Miscellaneous Plan	
	2020	**2020**
Proportion – Beginning of year	0.10324%	0.09653%
Proportion – End of year	0.10565%	0.10324%
Change – Increase (Decrease)	0.00241%	0.00671%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2021 and 2020, the District recognized pension expense of $1,950,801 and $2,182,325, respectively.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

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

Description		June 30, 2021 Deferred Outflows of Resources	June 30, 2021 Deferred Inflows of Resources	June 30, 2020 Deferred Outflows of Resources	June 30, 2020 Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	1,109,575	-	958,057	-
Net difference between actual and expected experience		592,355	-	677,797	-
Change in assumptions		-	(81,985)	325,616	-
Net difference between projected and actual earnings on plan investments		341,468	-	-	(184,945)
Differences between actual contribution and proportionate share of contribution		-	(500,406)	-	(485,359)
Net adjustment due to differences in proportions of net pension liability		503,016	-	597,908	-
Total	$	2,546,414	(582,391)	2,559,378	(670,304)

As of June 30 2021 and 2020, the District reported $1,109,575 and $958,057, respectively, as deferred outflows of resources related to contributions subsequent to the measurement dates. Pension contributions subsequent to the measurement date for the year ended June 30, 2021, will be recognized as a reduction of the net pension liability for the year ended June 30, 2022. Pension contributions subsequent to the measurement date for the year ended June 30, 2020, were recognized as a reduction of the net pension liability for the year ended June 30, 2021.

At June 30, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows/(Inflows) of Resources
2022	$	222,269
2023		306,796
2024		181,677
2025		143,706

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2019 and 2018, actuarial valuation reports were determined using the following actuarial assumptions:

Valuation dates	June 30, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
Actuarial cost method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50 % net of pension plan investment and administrative expenses; includes inflation
Mortality Rate Table*	derived using CalPERS' membership data for all funds
Period upon which actuarial experience survey assumptions were based	1997–2015
Post retirement benefit	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflect the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

As of June 30, 2021 and 2020, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	50.0%	4.80%	2.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Infrastructure and Forestland	0.0%	0.00%	0.00%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

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

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

As of June 30, 2021, the discount rate comparison was the following:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 15,809,963	11,494,722	6,260,383

(8) Defined Benefit Pension Plan, continued

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

As of June 30, 2020, the discount rate comparison was the following:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 15,809,963	10,578,547	6,260,383

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 53 and 54 for the Required Supplementary Information.

Payable to the Pension Plan

As of June 30, 2021 and 2020, the District reported no payables for the outstanding amount of contribution to the pension plan.

(9) Net Position

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

		2021	2020
Net investment in capital assets:			
Capital assets, net	$	51,171,897	51,746,130
Notes payable, current		(222,122)	(213,497)
Notes payable, non-current		(4,319,743)	(4,541,865)
Loan payable, current		(241,034)	(235,404)
Loan payable, non-current		(628,344)	(869,378)
Bonds payable, current		(80,000)	(75,000)
Bonds payable, non-current		(865,000)	(945,000)
Certificate of Participation, current		-	(180,000)
Certificate of Participation, non-current		-	(6,285,000)
Loan proceeds held by District		-	529,056
Total net investment in capital assets		44,815,654	38,930,042
Restricted for capital projects:			
Restricted – cash and cash equivalents		384,604	395,003
Restricted – note receivable, current		7,500	7,500
Restricted – note receivable, non-current		230,000	237,500
Restricted – property taxes and assessments receivable		3,267	4,954
Total restricted for capital projects		625,371	644,957
Restricted for debt service:			
Restricted – cash and cash equivalents		131,261	661,309
Unrestricted net position:			
Non-spendable net position:			
Materials and supplies receivable		328,455	269,842
Prepaid expenses and other assets		431,932	384,400
Total non-spendable net position		760,387	654,242
Spendable net position is designated as follows:			
Unrestricted		18,482,714	15,449,699
Total spendable net position		18,482,714	15,449,699
Total unrestricted net position		19,243,101	16,103,941
Total net position	$	64,815,387	56,340,249

(10) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by Voya Financial and Nationwide through administrative service agreements. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by Voya Financial and Nationwide at June 30, 2021 and 2020, amounted to $4,729,236 and $4,013,045, respectively.

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

(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; injuries to employees; and natural disasters. Insurance coverage is provided by various carriers in amounts to meet statutory requirements.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2021, 2020, and 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR or claims payable as of June 30, 2021, 2020, and 2019.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2021, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 87

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

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

Governmental Accounting Standards Board Statement No. 87, continued

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

Governmental Accounting Standards Board Statement No. 89

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

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

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

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

Governmental Accounting Standards Board Statement No. 91

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

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

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

Governmental Accounting Standards Board Statement No. 91, continued

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

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

Governmental Accounting Standards Board Statement No. 92

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

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

Governmental Accounting Standards Board Statement No. 93

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

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

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

Governmental Accounting Standards Board Statement No. 94

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

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

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

Governmental Accounting Standards Board Statement No. 96

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

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

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

Governmental Accounting Standards Board Statement No. 97

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

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

Governmental Accounting Standards Board Statement No. 98

In October 2021, the GASB issued Statement No. 98 – *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

(13) Commitments and Contingencies

Litigation

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

(14) Subsequent Events

Legal Settlement

On November 16, 2021, the District approved and authorized a settlement agreement with Dow Chemical Company amounting to $6.5 million. On December 1, 2021, the District received net proceeds from the settlement amounting to $4,367,834.

Management is not aware of any other events or transactions, including estimates that provide additional evidence about conditions that existed as of June 30, 2021, or arose subsequent to that date, and are considered inherent in the process of preparing these financial statements.

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Required Supplementary Information

Lake Hemet Municipal Water District
Schedules of Changes in the Total OPEB Liability and Related Ratios
As of June 30, 2021
Last Ten Years*

Fiscal year ending		June 30, 2021	June 30, 2020	June 30, 2019	June 20, 2018
Total OPEB Liability					
Service cost	$	80,394	49,892	44,028	42,850
Interest		49,263	72,307	66,544	69,476
Experience (gains) losses		-	(331,763)	-	-
Changes in assumptions		15,864	410,260	94,386	-
Benefit payments		(40,251)	(45,080)	(41,362)	(39,771)
Net change in total OPEB liability		105,270	155,616	163,596	72,555
Total OPEB liability – beginning of year		2,219,137	2,063,521	1,899,925	1,827,370
Total OPEB liability – end of year	$	2,324,407	2,219,137	2,063,521	1,899,925
Covered payroll	$	3,871,719	3,866,943	4,394,943	4,401,201
Total OPEB liability as a percentage of covered payroll		60.04%	57.39%	53.36%	44.53%

Notes to schedule:

There were no changes in benefits.

Valuation date	June 30, 2020	June 30, 2020	June 30, 2018	June 30, 2018
Methods and assumptions used to determine contribution rates:				
Single and agent employers	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)
Asset valuation method	N/A	N/A	N/A	N/A
Inflation	2.75%	2.75%	2.75%	2.75%
Salary increases	2.75%	2.75%	2.75%	2.75%
Investment rate of return	2.16%	2.20%	3.50%	3.80%
Mortality, retirement, turnover	(2)	(2)	(2)	(2)

N/A – The District has financed its total OPEB liability on a pay-as-you-go basis. Actuarially determined contribution levels (ADCs) are not required to be developed under these circumstances.

(1) Level of percentage of payroll, closed

(2) 2017 CalPERS Retiree Mortality for All Employees

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

Lake Hemet Municipal Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2021
Last Ten Years*

Fiscal years	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement dates	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.10565%	0.10324%	0.09653%	0.09463%	0.08268%	0.07749%	0.07175%
District's proportionate share of the net pension liability	$ 11,494,722	10,578,547	9,301,784	9,384,584	7,154,315	5,318,986	4,464,431
District's covered payroll	$ 3,871,719	3,866,943	4,394,943	4,401,201	4,240,964	4,081,595	3,883,466
District's proportionate share of the net pension liability as a percentage of its covered payroll	296.89%	273.56%	211.65%	213.23%	168.70%	130.32%	114.96%
District's proportionate share of fiduciary net pension as a percentage of total pension liability	72.03%	72.80%	74.52%	73.30%	76.11%	81.19%	82.93%

Notes to schedule:

Benefits changes:
There were no changes in benefits

Changes in assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses.
The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.
The asset valuation method changed from the 15 year smoothed market method to the market value method.
From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.
From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%
The inflation rate was reduced from 2.75% to 2.625%
From fiscal year June 30, 2018 to June 30, 2019:
The inflation rate was reduced from 2.625% to 2.50%
From fiscal year June 30, 2019 to June 30, 2020:
There were no changes in assumptions.
From fiscal year June 30, 2020 to June 30, 2021:
There were no changes in assumptions.

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

Lake Hemet Municipal Water District
Schedules of Pension Plan Contributions
As of June 30, 2021
Last Ten Years*

Fiscal year ended		June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$	1,158,049	1,071,419	934,300	730,278	649,721	520,468	557,682
Contributions in relation to the actuarially determined contribution		(1,158,049)	(1,071,419)	(934,300)	(730,278)	(649,721)	(520,468)	(557,682)
Contribution deficiency (excess)	$	-	-	-	-	-	-	-
Covered payroll	$	3,871,719	3,866,943	4,394,943	4,401,201	4,240,964	4,081,595	3,883,466
Contribution's as a percentage of covered payroll		29.91%	27.71%	21.26%	16.59%	15.32%	12.75%	14.36%

Notes to schedule:

Valuation dates	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Methods and assumptions used to determine contribution rates:							
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market value	Market value	Market value	Market value	Market value	Market value	15 year Smoothed Market Methoc
Inflation	2.500%	2.625%	2.750%	2.750%	2.750%	2.750%	2.750%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.000% (3)	7.250% (3)	7.375% (3)	7.500% (3)	7.500% (3)	7.500% (3)	7.500% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)	(5)

(1) Level percentage of payroll, closed
(2) Depending on age, service, and type of employment
(3) Net of pension plan investment expense, including inflation
(4) 50 for all plans with exception of 52 for Miscellaneous 2% @ 62
(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

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

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Supplemental Information

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statements of Net Position – Garner Valley
June 30, 2021 and 2020

		2021	2020
Current assets:			
Cash and cash equivalents – restricted	$	131,261	132,253
Accounts receivable – water sales, net		70,000	48,877
Property taxes and assessments receivable		4,626	6,529
Prepaid expenses and other assets		6,312	5,408
Total current assets		212,199	193,067
Non-current assets:			
Capital assets – not being depreciated		6,588	6,588
Depreciable capital assets, net		2,209,213	2,353,900
Total non-current assets		2,215,801	2,360,488
Total assets		2,428,000	2,553,555
Current liabilities:			
Accounts payable and accrued expenses		49,397	21,235
Accrued interest payable		15,913	17,119
Unearned revenue		11,381	10,123
Long-term liabilities – due within one year:			
Compensated absences		10,381	8,597
Bonds payable		80,000	75,000
Total current liabilities		167,072	132,074
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Bonds payable		865,000	945,000
Total non-current liabilities		865,000	945,000
Total liabilities		1,032,072	1,077,074
Net position:			
Net investment in capital assets		1,270,801	1,340,488
Restricted for debt service		131,261	132,253
Unrestricted		(6,134)	3,740
Total net position	$	1,395,928	1,476,481

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statement of Revenues, Expenses and Changes in Net Position – Garner Valley
For the Fiscal Years Ended June 30, 2021 and 2020

		2021	2020
Operating revenues:			
Water consumption sales:			
Domestic water sales	$	484,572	361,786
Total operating revenues		484,572	361,786
Operating expenses:			
Source of supply		14,889	5,792
Pumping		61,919	70,183
Treatment		16,867	27,416
Transmission and distribution		5,488	1,878
Customer accounts		811	913
General and administrative		15,005	75,047
Total operating expenses		114,979	181,229
Operating income before depreciation expense		369,593	180,557
Depreciation expense		(141,997)	(144,210)
Operating income		227,596	36,347
Non-operating revenue (expense):			
Property taxes and assessments		225,740	217,017
Investment earnings		474	2,017
Interest expense		(47,863)	(51,454)
Other non-operating expenses, net		(9,234)	(15,869)
Total non-operating revenues, net		169,117	151,711
Inter-fund transfers:			
Total inter-fund transfers		(477,746)	(234,783)
Changes in net position		(80,553)	(46,725)
Net position, beginning of period		1,476,481	1,523,206
Net position, end of period	$	1,395,928	1,476,481

Lake Hemet Municipal Water District
Individual Non-Major Fund – Schedules of Capital Assets – Garner Valley
June 30, 2021 and 2020

Changes in capital assets for the year were as follows:

	Balance 2020	Additions/ Transfers	Deletions/ Transfers	Balance 2021
Non-depreciable assets:				
Land	$ 6,588	-	-	6,588
Construction-in-progress	-	91,924	-	91,924
Total non-depreciable assets	6,588	-	-	6,588
Depreciable assets:				
Dams, wells, and reservoirs	354,769	-	-	354,769
Pumping and purification	433,520	15,265	(49,859)	398,926
Distribution and transmission	3,331,799	-	-	3,331,799
Fire hydrants, services, and meters	305,595	8,832	(7,159)	307,268
Buildings, structures, and grounds	99,084	-	(316)	98,768
Total depreciable assets	4,524,767	24,097	(57,334)	4,491,530
Accumulated depreciation	(2,168,654)	(171,519)	57,334	(2,282,839)
Total depreciable assets, net	2,356,113	(147,422)	-	2,208,691
Total capital assets, net	$ 2,362,701			2,215,279

Changes in capital assets for the year were as follows:

	Balance 2019	Additions/ Transfers	Deletions/ Transfers	Balance 2020
Non-depreciable assets:				
Land	$ 6,588	-	-	6,588
Total non-depreciable assets	6,588	-	-	6,588
Depreciable assets:				
Dams, wells, and reservoirs	354,769	-	-	354,769
Pumping and purification	429,340	4,180	-	433,520
Distribution and transmission	3,331,799	-	-	3,331,799
Fire hydrants, services, and meters	305,595	-	-	305,595
Buildings, structures, and grounds	99,084	-	-	99,084
Total depreciable assets	4,520,587	4,180	-	4,524,767
Accumulated depreciation:	(2,026,657)	(141,997)	-	(2,168,654)
Total depreciable assets, net	2,493,930	(137,817)	-	2,356,113
Total capital assets, net	$ 2,500,518			2,362,701

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Report on Internal Controls and Compliance

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

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lake Hemet Municipal Water District (District), as of and for the fiscal years June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 20, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 20, 2022