Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2023 and 2022

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, 2023

Name		Title	Elected/ Appointed	Current Term
Todd A. Foutz	Division III	President	Elected	01/2022 - 12/2025
Steven A. Pastor	Division V	Vice-President	Appointed	01/2021 - 12/2024
Frank D. Marshall III	Division I	Secretary/Treasurer	Elected	01/2021 - 12/2025
Larry Minor	Division IV	Director	Elected	01/2022 - 12/2025
David Jorgensen	Division II	Director	Elected	01/2021 - 12/2024

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, 2023 and 2022

Lake Hemet Municipal Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2023 and 2022

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Introductory Section

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26385 Fairview Avenue, Hemet, CA
Phone: 951/658-3241 Fax 951/766-7031
www.lhmwd.org

December 14, 2023

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, 2023 and 2022, 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 50 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 C.J. Brown & Company, CPAs 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

Clara Beaver
Administrative Services Manager

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Financial Section

C.J. Brown & Company CPAs
An Accountancy Corporation

Christopher J. Brown, CPA, CGMA
Jonathan Abadesco, CPA
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Independent Auditor's Report

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Lake Hemet Municipal Water District (District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2023 and 2022, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Independent Auditor's Report, continued

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and the required supplementary information on pages 44 through 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Independent Auditor’s Report, continued

Supplementary 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 financial statements for the Individual Non-Major Fund, including the notes to the supplementary information, on pages 48 through 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements for the Individual Non-Major Fund 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 financial statements for the Individual Non-Major Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
December 14, 2023

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, 2023 and 2022. 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 2023, the District's net position increased 10.16% or $7,330,562 to $79,501,972. In fiscal year 2022, the District's net position increased 11.35% or $7,356,023 to $72,171,410.
- Total revenues decreased 18.02% or $5,113,173 to $23,261,480. In fiscal year 2022, the District's total revenues increased 27.75% or $6,163,175 to $28,374,653.
- Operating revenue decreased 7.82% or $1,681,573 to $19,829,421. In fiscal year 2022, the District's operating revenue increased 7.48% or $1,496,174 to $21,510,994.
- Non-operating revenue decreased 50.00% or $3,431,600 to $3,432,059. In fiscal year 2022, the District's non-operating revenue increased 212.46% or $4,667,001 to $6,863,659.
- Total expenses decreased 25.04% or $5,369,758 to $16,079,032. In fiscal year 2022, the District's total expenses increased 47.36% or $6,893,297 to $21,448,790.
- Operating expense decreased 24.71% or $4,249,872 to $12,951,331. In fiscal year 2022, the District's operating expense increased 57.56% or $6,284,159 to $17,201,203.
- Non-operating expense decreased 96.21% or $1,006,159 to $39,632. In fiscal year 2022, the District's non-operating expense increased 176.52%or $667,589 to $1,045,791.

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 18 through 43.

Statement of Net Position

A summary of the statements of net position is a follows:

Condensed Statements of Net Position

		2023	2022	Change	As Restated 2021	Change
Assets:						
Current assets	$	47,408,236	41,193,472	6,214,764	35,113,324	6,080,148
Non-current assets		215,000	222,500	(7,500)	230,000	(7,500)
Capital assets, net		48,615,982	50,046,873	(1,430,891)	51,171,897	(1,125,024)
Total assets		96,239,218	91,462,845	4,776,373	86,515,221	4,947,624
Deferred outflows of resources		5,710,849	2,087,999	3,622,850	2,453,826	(365,827)
Liabilities:						
Current liabilities		3,710,370	3,617,093	93,277	3,772,549	(155,456)
Non-current liabilities		16,881,632	10,562,125	6,319,507	20,035,769	(9,473,644)
Total liabilities		20,592,002	14,179,218	6,412,784	23,808,318	(9,629,100)
Deferred inflows of resources		1,856,093	7,200,216	(5,344,123)	81,985	7,118,231
Net position:						
Net investment in capital assets		47,835,982	49,181,873	(1,345,891)	44,815,654	4,366,219
Restricted		365,806	368,435	(2,629)	757,991	(389,556)
Unrestricted		31,300,184	22,621,102	8,679,082	19,241,742	3,379,360
Total net position	$	79,501,972	72,171,410	7,330,562	64,815,387	7,356,023

Statement of Net Position, continued

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 $79,501,972 and $72,171,410 and as of June 30, 2023 and 2022, respectively. The District's total net position is made up of three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted.

By far the largest portion of the District's net position (60.17% and 68.15% as of June 30, 2023 and 2022, 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 2023 and 2022, the District showed a positive balance in its unrestricted net position of $31,300,184 and $22,621,102, respectively, which may be utilized in future years. See note 10 for further information.

Statement of Revenues, Expenses and Changes in Net Position

A summary of the statements of revenues, expenses, and changes in net position is as follows:

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

	2023	2022	Change	2021	Change
Revenue:					
Operating revenues	$ 19,829,421	21,510,994	(1,681,573)	20,014,820	1,496,174
Non-operating revenue	3,432,059	6,863,659	(3,431,600)	2,196,658	4,667,001
Total revenue	23,261,480	28,374,653	(5,113,173)	22,211,478	6,163,175
Expense:					
Operating expense	12,951,331	17,201,203	(4,249,872)	10,917,044	6,284,159
Depreciation	3,088,069	3,201,796	(113,727)	3,260,247	(58,451)
Non-operating expense	39,632	1,045,791	(1,006,159)	378,202	667,589
Total expense	16,079,032	21,448,790	(5,369,758)	14,555,493	6,893,297
Net income before capital contributions	7,182,448	6,925,863	256,585	7,655,985	(730,122)
Capital contributions	148,114	430,160	(282,046)	819,153	(388,993)
Changes in net position	7,330,562	7,356,023	(25,461)	8,475,138	(1,119,115)
Net position – beginning of period	72,171,410	64,815,387	7,356,023	56,340,249	8,475,138
Net position – end of period	$ 79,501,972	72,171,410	7,330,562	64,815,387	7,356,023

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

In fiscal year 2023, the District's net position increased 10.16% or $7,330,562 to $79,501,972, primarily due to net income of $7,182,448 from ongoing operations and $148,114 in capital contributions. In fiscal year 2022, the District's net position increased 11.35% or $7,356,023 to $72,171,410, primarily due to net income of $6,925,863 from operations and $430,160 in capital contributions.

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

In fiscal year 2023, the District's total revenues decreased 18.02% or $5,113,173 to $23,261,480. Operating revenues decreased 7.82% or $1,681,573 to $19,829,421, primarily due to decreases of $1,476,604 in water consumption sales and $207,657 in surcharges and assessments – water. Non-operating revenues decreased 50.00% or $3,431,600 to $3,432,059, primarily due to decreases of $4,382,284 in other non-operating revenue; which was offset by increases of $619,297 in investment return, and $245,269 in property taxes.

In fiscal year 2022, the District's total revenues increased 27.75% or $6,163,175 to $28,374,653. Operating revenues increased 7.48% or $1,496,174 to $21,510,994, primarily due to increases of $1,057,237 in water consumption sales and $439,609 in other charges. Non-operating revenues increased 212.46% or $4,667,001 to $6,863,659, primarily due to increases of $4,406,928 in other revenues.

In fiscal year 2023, the District's total expenses decreased 25.04% or $5,369,758 to $16,079,032. Operating expenses decreased 24.71% or $4,249,872 to $12,951,331 primarily due to decreases of $3,422,592 in general and administrative expense due to the effect of GASB 68 pension adjustments, $516,995 in treatment expense, and $207,509 in sewer expense. Non-operating expenses decreased 96.21% or $1,006,159 to $39,632, primarily due to a decrease of $1,006,159 in interest expense.

In fiscal year 2022, the District's total expenses increased 47.36% or $6,893,297 to $21,448,790. Operating expenses decreased 57.56% or $6,284,159 to $17,201,203 primarily due to decreases of $3,503,911 in source of supply due to the Soboba recharge water purchase in the prior year, and $2,856,299 in general and administrative expense. Non-operating expenses increased 176.52% or $667,589 to $1,045,791, primarily due to an increase of 667,589 in in interest expense on long-term debt

Capital Assets Administration

Changes in capital assets for 2023 were as follows:

		Balance 2022	Reclassification/ Additions	Transfers/ Deletions	Balance 2023
Non-depreciable assets	$	2,186,754	788,928	(2,036,288)	939,394
Depreciable assets		110,611,766	2,948,820	(272,388)	113,288,198
Accumulated depreciation		(62,751,647)	(3,088,069)	228,106	(65,611,610)
Total capital assets, net	$	50,046,873	649,679	(2,080,570)	48,615,982

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 5 for further information.

Capital Assets Administration, continued

Changes in capital assets for 2022 were as follows:

		Balance 2021	Reclassification/ Additions	Transfers/ Deletions	Balance 2022
Non-depreciable assets	$	1,630,184	1,249,609	(693,039)	2,186,754
Depreciable assets		109,276,322	1,556,620	(221,176)	110,611,766
Accumulated depreciation		(59,734,609)	(3,201,796)	184,758	(62,751,647)
Total capital assets, net	$	51,171,897	(395,567)	(729,457)	50,046,873

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.

At the end of fiscal years 2023 and 2022, the District's investment in capital assets net of accumulated depreciation amounted to $48,615,982 and $50,046,873, 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 2023 were as follows:

		Balance 2022	Additions	Principal Payments	Balance 2023
Bond payable	$	865,000	-	(85,000)	780,000
Total long-term debt	$	865,000	-	(85,000)	780,000

The District's long-term debt decreased $85,000 primarily due to regular principal payments.

Changes in long-term debt for 2022 were as follows:

		Balance 2021	Additions	Principal Payments	Balance 2022
Notes payable	$	4,541,865	-	(4,541,865)	-
Loan payable		869,378	-	(869,378)	-
Bond payable		945,000	-	(80,000)	865,000
Total long-term debt	$	6,356,243	-	(5,491,243)	865,000

Debt Administration, continued

The District's long-term debt decreased $5,491,243 primarily due to the full principal payments of the notes payable with the Eastern Municipal Water District and loan payable with the California Department of Water Resources totaling $4,541,865 and $869,378, respectively.

See note 7 for further information.

Conditions Affecting Current Financial Position

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

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, 2023 and 2022

		2023	2022
Current assets:			
Cash and cash equivalents (note 2)	$	38,746,924	32,570,063
Cash and cash equivalents – restricted (note 2)		134,909	131,287
Investments (note 2)		3,855,870	3,811,611
Accrued interest receivable		109,955	17,477
Accounts receivable – water sales, net		3,554,314	3,890,460
Property taxes and assessments receivable		114,038	72,969
Property taxes and assessments receivable – restricted		6,667	5,423
Note receivable – restricted (note 3)		7,500	7,500
Materials and supplies inventory		431,565	339,380
Prepaid expenses and other assets		446,494	347,302
Total current assets		47,408,236	41,193,472
Non-current assets:			
Note receivable – restricted (note 3)		215,000	222,500
Capital assets – not being depreciated (note 5)		939,394	2,186,754
Depreciable capital assets, net (note 5)		47,676,588	47,860,119
Total non-current assets		48,830,982	50,269,373
Total assets		96,239,218	91,462,845
Deferred outflows of resources:			
Deferred OPEB outflows (note 8)		302,312	-
Deferred pension outflows (note 9)		5,408,537	2,087,999
Total deferred outflows of resources	$	5,710,849	2,087,999

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Net Position, continued
June 30, 2023 and 2022

		2023	2022
Current liabilities:			
Accounts payable and accrued expenses	$	1,889,069	1,824,165
Accrued salaries and related payables		181,521	193,413
Accrued interest payable – restricted		13,094	14,587
Customer deposits		1,395,058	1,344,779
Long-term liabilities – due within one year:			
Compensated absences (note 6)		151,628	160,149
Bonds payable (note 7)		80,000	80,000
Total current liabilities		3,710,370	3,617,093
Non-current liabilities:			
Unearned revenue – construction deposits		378,975	166,011
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)		227,442	240,223
Bonds payable (note 7)		700,000	785,000
Other post-employment benefits liability (note 8)		1,860,175	1,808,728
Net pension liability (note 9)		13,715,040	7,562,163
Total non-current liabilities		16,881,632	10,562,125
Total liabilities		20,592,002	14,179,218
Deferred inflows of resources:			
Deferred OPEB inflows (note 8)		700,899	416,051
Deferred pension inflows (note 9)		1,155,194	6,784,165
Total deferred inflows of resources		1,856,093	7,200,216
Net position: (note 10)			
Net investment in capital assets		47,835,982	49,181,873
Restricted for capital projects		230,897	237,148
Restricted for debt service		134,909	131,287
Unrestricted		31,300,184	22,621,102
Total net position	$	79,501,972	72,171,410

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, 2023 and 2022

		2023	2022
Operating revenues:			
Water consumption sales:			
Residential and commercial	$	13,169,237	13,796,809
Irrigation		3,936,615	4,785,647
Surcharges and assessments – water		1,239,646	1,447,303
Sewer services		743,991	747,190
Other charges		739,932	734,045
Total operating revenues		19,829,421	21,510,994
Operating expenses:			
Source of supply		4,647,695	5,094,341
Pumping		1,591,355	1,613,583
Treatment		71,240	588,235
Transmission and distribution		1,471,294	1,112,700
Customer accounts		148,531	141,027
Sewer		185,272	392,781
General and administrative		4,835,944	8,258,536
Total operating expenses		12,951,331	17,201,203
Operating income before depreciation expense		6,878,090	4,309,791
Depreciation		(3,088,069)	(3,201,796)
Operating income		3,790,021	1,107,995
Non-operating revenue (expense):			
Property taxes		2,308,478	2,063,209
Net income from Lake Hemet Campground operations		632,856	573,071
Rental income, net		110,416	105,384
Investment return		431,849	(187,448)
Interest expense		(39,632)	(1,045,791)
Gain (loss) on disposal of assets		45,307	24,006
Other non-operating revenue (expense), net		(96,847)	4,285,437
Total non-operating revenues, net		3,392,427	5,817,868
Net income before capital contributions		7,182,448	6,925,863
Capital contributions:			
Donations in aid of construction		78,009	386,206
Connection fees		70,105	43,954
Total capital contributions		148,114	430,160
Changes in net position		7,330,562	7,356,023
Net position, beginning of period		72,171,410	64,815,387
Net position, end of period	$	79,501,972	72,171,410

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Receipts from customers for water sales and services	$ 20,428,810	21,507,554
Payment to employees for salaries and wages	(4,987,231)	(4,425,142)
Payments to vendors for materials and services	(10,886,416)	(9,890,276)
Net cash provided by operating activities	4,555,163	7,192,136
Cash flows from non-capital financing activities:		
Property tax revenue	2,266,165	2,060,436
Net income from Lake Hemet Campground operations	632,856	573,071
Rental income, net	110,416	105,384
Other non-operating revenue (expense), net	(96,847)	4,285,437
Net cash provided by non-capital financing activities	2,912,590	7,024,328
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,611,871)	(2,052,766)
Proceeds from capital contributions	148,114	430,160
Proceeds from Beaumont concrete settlement	7,500	7,500
Principal payments on notes payable	-	(4,541,865)
Principal payments on loans payable	-	(869,378)
Principal payments on bonds payable	(85,000)	(80,000)
Interest paid on long-term debt	(41,125)	(1,052,319)
Net cash used in capital and related financing activities	(1,582,382)	(8,158,668)
Cash flows from investing activities:		
Investment return	295,112	(74,440)
Net cash provided by (used in) investing activities	295,112	(74,440)
Net increase in cash and cash equivalents	6,180,483	5,983,356
Cash and cash equivalents, beginning of year	32,701,350	26,717,994
Cash and cash equivalents, end of year	$ 38,881,833	32,701,350
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	$ 38,746,924	32,570,063
Cash and cash equivalents – restricted	134,909	131,287
Total cash and cash equivalents	$ 38,881,833	32,701,350

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, 2023 and 2022

		2023	2022
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	3,790,021	1,107,995
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation		3,088,069	3,201,796
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
(Increase) decrease in assets:			
Accounts receivable – water sales, net		336,146	(280,732)
Materials and supplies inventory		(92,185)	(10,925)
Prepaid expenses and other assets		(99,192)	84,630
(Increase) decrease in deferred outflows of resources:			
Deferred other post-employment benefit outflows		(302,312)	407,818
Deferred pension outflows		(3,320,538)	(41,991)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		64,904	18,925
Accrued salaries and related payables		(11,892)	28,446
Customer deposits		50,279	269,958
Unearned revenue – construction deposits		212,964	7,334
Compensated absences		(21,302)	(7,754)
Total other post-employment benefit liability		51,447	(515,679)
Net pension liability		6,152,877	(3,932,559)
Increase (decrease) in deferred inflows of resources:			
Deferred other post-employment benefit inflows		284,848	152,694
Deferred pension inflows		(5,628,971)	6,702,180
Total adjustments		765,142	6,084,141
Net cash provided by operating activities	$	4,555,163	7,192,136
Non-cash investing, capital, and financing transactions:			
Change in fair-market value of investments	$	(144,044)	(268,334)

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 is 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:

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.

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

C. Financial Reporting, continued

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.

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.

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.

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. 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.

3. 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.

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

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

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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 and distribution plant	33.3 years
• General plant	5.0 to 33.3 years

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

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

10. Deferred Outflows of Resources

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

11. 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 and 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 years 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 for part-time employees. 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.

12. 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, 2021 and June 30, 2020
- Measurement dates: June 30, 2022 and June 30, 2021
- Measurement periods: July 1, 2021 to June 30, 2022 and July 1, 2020 to June 30, 2021

13. Deferred Inflows of Resources

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

14. Deposit Connection Fees

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

15. Water and Sewer Sales

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

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

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

16. 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.

17. 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, 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.

18. 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.

19. Reclassification

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

(2) Cash and Investments

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

		2023	2022
Cash and cash equivalents	$	38,746,924	32,570,063
Cash and cash equivalents – restricted		134,909	131,287
Investments		3,855,870	3,811,611
Total cash and investments	$	42,737,703	36,512,961

(2) Cash and Investments, continued

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

		2023	2022
Cash and cash equivalents:			
Cash on hand	$	1,150	1,150
Deposits with financial institutions		23,848,450	21,832,540
Cash and cash equivalents		23,849,600	21,833,690
Investments:			
Deposits held with California Local Agency Investment Fund (LAIF)		13,789,701	9,670,618
Deposits with CalTrust:			
Short Term Fund		562,882	544,948
Medium Term Fund		3,292,988	3,266,663
Total held with CalTrust		3,855,870	3,811,611
Deposits held with trustee:			
Money market		1,107,623	1,065,755
Limited obligation improvement bonds		134,909	131,287
Investments		18,888,103	14,679,271
Total cash and investments	$	42,737,703	36,512,961

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

	2023	2022
Deposits held with LAIF	260 days	311 days
Deposits held with CalTrust Short Term Fund	321 days	329 days
Deposits held with CalTrust Medium Term Fund	784 days	770 days

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 on the next page 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.

(2) Cash and Investments, continued

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.

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

(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.

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

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

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

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

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 balance, 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.

(2) Cash and Investments, continued

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.

Maturities of the District's investments at June 30, 2023, were as follows:

		Remaining Maturity	
Investment Type		**Total**	**12 Months Or Less**
Local Agency Investment Fund (LAIF)	$	13,789,701	13,789,701
CalTrust Investment Fund		3,855,870	3,855,870
Money market funds		1,107,623	1,107,623
Limited obligation improvement bonds		134,909	134,909
Total	$	18,888,103	18,888,103

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

		Remaining Maturity	
Investment Type		**Total**	**12 Months Or Less**
Local Agency Investment Fund (LAIF)	$	9,670,618	9,670,618
CalTrust Investment Fund		3,811,611	3,811,611
Money market funds		1,065,755	1,065,755
Limited obligation improvement bonds		131,287	131,287
Total	$	14,679,271	14,679,271

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by an 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, 2023, were as follows:

Investment Types		**Total**	**Minimum Legal Rating**		**Rating AAA**	**Rating AAf**	**Not Rated**
Local Agency Investment Fund (LAIF)	$	13,789,701	N/A	$	-	-	13,789,701
CalTrust Investment Fund		3,855,870	AAf		-	3,855,870	-
Money market funds		1,107,623	AAA		1,107,623	-	-
Limited obligation improvement bonds		134,909	AAA		134,909	-	-
Total	$	18,888,103		$	1,242,532	3,855,870	13,789,701

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2022, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	9,670,618	N/A	$	-	-	9,670,618
CalTrust Investment Fund		3,811,611	AAf		-	3,811,611	-
Money market funds		1,065,755	AAA		1,065,755	-	-
Limited obligation improvement bonds		131,287	AAA		131,287	-	-
Total	$	14,679,271		$	1,197,042	3,811,611	9,670,618

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2023 and 2022.

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis as of June 30, 2023, 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	$	1,107,623	1,107,623	-	-
CalTrust Investment Fund		3,855,870	-	3,855,870	-
Held by bond trustee:					
Money market funds		134,909	134,909	-	-
Total investments measured at fair value		5,098,402	1,242,532	3,855,870	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		13,789,701			
Total	$	18,888,103			

(2) Cash and Investments, continued

Investments measured at fair value on a recurring and non-recurring basis as of June 30, 2022, 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	$	1,065,755	1,065,755	-	-
CalTrust Investment Fund		3,811,611	-	3,811,611	-
Held by bond trustee:					
Money market funds		131,287	131,287	-	-
Total investments measured at fair value		5,008,653	1,197,042	3,811,611	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		9,670,618			
Total	$	14,679,271			

(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, 2023, were as follows:

		Balance 2022	Payments Received	Balance 2023	Current Portion	Non-Current Portion
Note receivable	$	230,000	(7,500)	222,500	7,500	215,000

Changes in note receivable for June 30, 2022, were as follows:

		Balance 2021	Payments Received	Balance 2022	Current Portion	Non-Current Portion
Note receivable	$	237,500	(7,500)	230,000	7,500	222,500

(4) 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, 2023 and 2022, amounted to $4,645,978 and $4,729,236, respectively.

(4) Deferred Compensation Savings Plan, continued

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.

(5) Capital Assets

Changes in capital assets for 2023 were as follows:

	Balance 2022	Additions/ Transfers	Deletions/ Transfers	Balance 2023
Non-depreciable assets:				
Land	$ 597,925	-	-	597,925
Intangible assets	11,340	-	-	11,340
Construction-in process	1,577,489	788,928	(2,036,288)	330,129
Total non-depreciable assets	2,186,754	788,928	(2,036,288)	939,394
Depreciable assets:				
Capacity rights	6,705,252	-	-	6,705,252
Dams, wells, & reservoirs	9,544,118	1,936	-	9,546,054
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	5,489,961	327,498	-	5,817,459
Distribution & transmission	39,042,017	1,739,898	(21,454)	40,760,461
Fire hydrants, services, & meters	18,511,198	499,362	(38,730)	18,971,830
Buildings, structures, & grounds	10,597,744	7,960	-	10,605,704
General equipment	4,314,007	339,369	(209,843)	4,443,533
Sewers	13,249,458			13,249,458
Campground installations etc.	3,087,217	32,797	(2,361)	3,117,653
Total depreciable assets	110,611,766	2,948,820	(272,388)	113,288,198
Accumulated depreciation	(62,751,647)	(3,088,069)	228,106	(65,611,610)
Total depreciable assets, net	47,860,119	(139,249)	(44,282)	47,676,588
Total capital assets, net	$ 50,046,873	649,679	(2,080,570)	48,615,982

Major capital asset additions in 2023 consisted primarily $788,928 in construction in progress, $1,739,898 in distribution and transmission, and $499,362 in fire hydrants, services, and meters.

(5) Capital Assets, continued

Changes in capital assets for 2022 were as follows:

	Balance 2021	Additions/ Transfers	Deletions/ Transfers	Balance 2022
Non-depreciable assets:				
Land	$ 597,925	-	-	597,925
Intangible assets	11,340	-	-	11,340
Construction-in process	1,020,919	1,249,609	(693,039)	1,577,489
Total non-depreciable assets	1,630,184	1,249,609	(693,039)	2,186,754
Depreciable assets:				
Capacity rights	6,705,252	-	-	6,705,252
Dams, wells, & reservoirs	9,542,616	1,502	-	9,544,118
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	5,311,604	249,188	(70,831)	5,489,961
Distribution & transmission	38,426,520	616,589	(1,092)	39,042,017
Fire hydrants, services, & meters	18,236,319	300,227	(25,348)	18,511,198
Buildings, structures, & grounds	10,597,744	-	-	10,597,744
General equipment	4,045,031	357,798	(88,822)	4,314,007
Sewers	13,241,611	7,847	-	13,249,458
Campground installations etc.	3,098,831	23,469	(35,083)	3,087,217
Total depreciable assets	109,276,322	1,556,620	(221,176)	110,611,766
Accumulated depreciation	(59,734,609)	(3,201,796)	184,758	(62,751,647)
Total depreciable assets, net	49,541,713	(1,645,176)	(36,418)	47,860,119
Total capital assets, net	$ 51,171,897	(395,567)	(729,457)	50,046,873

Major capital asset additions in 2022 consisted primarily of additions of $1,249,609 in construction in progress, $249,188 in pumping and purification, $616,589 in distribution and transmission, $300,227 in fire hydrants, services, and meters, and $357,789 in general equipment.

(6) 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 2023, were as follows:

Balance 2022	Earned	Taken	Balance 2023	Due within One Year	Due in more than one year
$ 400,372	517,610	(538,912)	379,070	151,628	227,442

Changes to compensated absences for 2022, were as follows:

Balance 2021	Earned	Taken	Balance 2022	Due within One Year	Due in more than one year
$ 408,126	412,683	(420,437)	400,372	160,149	240,223

(7) Long-Term Debt

Changes in long-term debt for 2023 were as follows:

		Balance 2022	Additions	Payments	Balance 2023	Current Portion	Non-current Portion
Long-term debt:							
Bonds payable:							
Assessment District No. 2003-1, Garner Valley	$	865,000	-	(85,000)	780,000	80,000	700,000
Total long-term debt	$	865,000	-	(85,000)	780,000	80,000	700,000

Changes in long-term debt for 2022 were as follows:

		Balance 2021	Additions	Payments	Balance 2022	Current Portion	Non-current Portion
Long-term debt:							
Notes payable:							
Ground Water Management Plan	$	4,541,865	-	(4,541,865)	-	-	-
Loan payable:							
Department of Water Resources		869,378	-	(869,378)	-	-	-
Bonds payable:							
Assessment District No. 2003-1, Garner Valley		945,000	-	(80,000)	865,000	80,000	785,000
Total long-term debt	$	6,356,243	-	(5,491,243)	865,000	80,000	785,000

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 proportionate share of 34.2%, or $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. During the year ended June 30, 2022, the note was paid in full.

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 to fund the replacement of a 37,000 feet aged transmission pipeline and related infrastructure. Terms of the loan call for semi-annual payments of principal and interest payable on October 1st and April 1st of each year. The interest on the loan is stated at 2.4%% and matures on September 2024. During the year ended June 30, 2022, the note was paid in full.

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 were issued upon and secured by property assessments within the Assessment District. Terms of the bond call for semi-annual payments of interest on September 2nd and March 2nd of each year, and annual payments of principal on September 2nd of year each. The interest on the bonds ranges from 3.0% to 5.0%, and the bonds mature on September 2030.

(7) Long-Term Debt, continued

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

Future annual debt service requirements are as follows:

Year	Principal	Interest	Total
2024	$ 80,000	37,625	117,625
2025	85,000	33,250	118,250
2026	90,000	28,750	118,750
2027	95,000	24,125	119,125
2028	100,000	19,250	119,250
2029-2031	330,000	25,875	355,875
Total	780,000	168,875	948,875
Current	(80,000)		
Non-current	$ 700,000		

(8) 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 retiree's death or the retiree ceasing to be covered under the District's medical plan.

(8) 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 Minimum; $50/Month Until Age 65
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 consists of the following members as of June 30:

	2023	2022
Participating active employees	48	48
Inactive employees or beneficiaries currently receiving benefit payments	21	21
Total plan membership	69	69

Total OPEB Liability

The District's total OPEB liability of $1,860,175 and $1,808,728 was measured as of June 30, 2022 and 2021, respectively, and was determined by an actuarial valuation as of that date.

Changes in the Total OPEB Liability

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

	2023	2022
Balance at beginning of year	$ 1,808,728	2,324,407
Changes during the year:		
Service cost	58,330	83,659
Interest	64,365	50,641
Contributions - employer	(39,348)	(43,497)
Experience (gains) losses	-	(161,304)
Assumption changes	(31,900)	(445,178)
Net change	51,447	(515,679)
Balance at end of year	$ 1,860,175	1,808,728

(8) Other Post-Employment Benefits, continued

Actuarial Assumptions and Other Inputs

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

Valuation Date	June 30, 2022 and 2022
Measurement Dates	June 30, 2023 and 2022
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	2023 - 2.50%; 2022 - 2.75%
Healthcare cost trend rates	4.00% per year
Discount rate	2023 – 3.65% per year net of expenses; the discount rate is based on the Bond Buyer 20 Bond Index. 2022 – 3.54% 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 Mortality Miscellaneous and Schools Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate of commonly used tables.

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

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

As of June 30, 2023, the discount rate comparison was the following:

	Discount Rate - 1% 2.65%	Current Discount Rate 3.65%	Discount Rate + 1% 4.65%
Total OPEB liability	$ 2,172,228	1,860,175	1,610,219

As of June 30, 2022, the discount rate comparison was the following:

	Discount Rate - 1% 2.54%	Current Discount Rate 3.54%	Discount Rate + 1% 4.54%
Total OPEB liability	$ 2,117,399	1,808,728	1,560,069

(8) Other Post-Employment Benefits, continued

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, 2023, the healthcare cost trend rate comparison was the following:

	Healthcare cost trend		
	1% Decrease	**Current**	**1% Increase**
Total OPEB liability	$ 1,567,239	1,860,175	2,234,612

As of June 30, 2022, the healthcare cost trend rate comparison was the following:

	Healthcare cost trend		
	1% Decrease	**Current**	**1% Increase**
Total OPEB liability	$ 1,532,550	1,808,728	2,163,183

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

For the fiscal years ended June 30, 2023 and 2022, the District recognized OPEB expense of $73,331 and $88,330, respectively.

At June 30, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2023		June 30, 2022	
Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Changes in assumptions	$ 302,312	(378,964)	-	(42,753)
Changes in experience	-	(321,935)	-	(373,298)
Total	$ 302,312	(700,899)	-	(416,051)

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	Net Deferred Outflows (Inflows) of Resources
2024	$ (49,364)
2025	(49,364)
2026	(49,364)
2027	(49,364)
2028	(49,364)
Thereafter	(151,767)

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

See page 50 for the Required Supplementary Information.

(9) Defined Benefit Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

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

	Classic	Misc 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	3,554,314	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%
2023:			
Required employee contribution rates	6.92%	6.93%	6.75%
Required employer contribution rates	10.32%	8.63%	7.47%
2022:			
Required employee contribution rates	6.91%	6.92%	6.75%
Required employer contribution rates	10.34%	8.65%	7.59%

(9) Defined Benefit Pension Plans, continued

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 a change in rate. Funding contribution for the Plan is determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, the District's contributions to CalPERS are as follows:

		2023	2022
Contributions – employer	$	1,399,956	1,239,985

Deferred Pension Outflows (Inflows) of Resources

For the years ended June 30, 2023 and 2022, the District recognized pension (credit) expense of $(2,613,525) and $3,967,615, respectively. As of the fiscal years ended June 30, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

		June 30, 2023		June 30, 2022	
Description		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	1,399,956	-	1,239,985	-
Net difference between actual and expected experience		90,957	-	848,014	-
Change in assumptions		1,405,392	-	-	-
Net difference between projected and actual earnings on plan investments		2,512,232	-	-	(6,601,368)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		-	(1,155,194)	-	(182,797)
Total	$	5,408,537	(1,155,194)	2,087,999	(6,784,165)

For the years ended June 30, 2023 and 2022, the District's deferred outflows of resources related to contributions subsequent to the measurement date totaled $1,399,956 and $1,239,985, respectively; and other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows/(Inflows) of Resources
2024	$	585,009
2025		487,484
2026		244,327
2027		1,536,566

(9) Defined Benefit Pension Plans, continued

Net Pension Liability

As of the fiscal years ended June 30, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	2023	2022
Proportionate share of net pension liability	$ 13,715,040	7,562,163

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2023 and 2022, the net pension liability of the Plan is measured as of June 30, 2022 and 2021 (the measurement dates, respectively). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and 2020 (the valuation dates), rolled forward to June 30, 2022 and 2021, 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. T

he District's changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2022 and 2021, were as follows:

	2023	2022
Proportion – beginning of year	0.10565%	0.13983%
Proportion – end of year	0.11874%	0.10565%
Change in proportionate share	0.01309%	-0.03418%

Actuarial Assumptions

The total pension liabilities in the June 30, 2021 and 2020, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2021 and 2020
Measurement dates	June 30, 2022 and 2021
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Discount rate	6.90%
Inflation	2.50%
Salary increases	Varies by entry age and service
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 increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on purchasing power applies

* The mortality table was developed based on CalPERS specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study that can be found on the CalPERS website.

(9) Defined Benefit Pension Plans, continued

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. This discount rate is not adjusted for administrative expenses.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The table below reflects the expected real rates of return by asset class.

Asset Class	Assumed Asset Classification	Real Return 1-10[1,2]
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%

[1] An expected inflation of 2.30% used for this period.
[2] Figures are based on the 2021-22 Asset Liability Management Study.

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, 2023, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
District's net pension liability	$ 19,935,867	13,715,040	8,596,843

(9) Defined Benefit Pension Plans, continued

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

As of June 30, 2022, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 13,247,365	7,562,163	2,862,287

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 45 through 47 for the Required Supplementary Information.

(10) Net Position

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

		2023	2022
Net investment in capital assets:			
Capital assets, net	$	48,615,982	50,046,873
Bonds payable, current		(80,000)	(80,000)
Bonds payable, non-current		(700,000)	(785,000)
Total net investment in capital assets		47,835,982	49,181,873
Restricted:			
Restricted for capital projects:			
Restricted – note receivable, current		7,500	7,500
Restricted – note receivable, non-current		215,000	222,500
Restricted – property taxes and assessments receivable		8,397	7,148
Total restricted for capital projects		230,897	237,148
Restricted for debt service:			
Restricted – cash and cash equivalents		134,909	131,287
Total restricted for debt service		134,909	131,287
Total restricted		365,806	368,435
Unrestricted:			
Non-spendable net position:			
Materials and supplies receivable		431,565	339,380
Prepaid expenses and other assets		446,494	347,302
Total non-spendable net position		878,059	686,682
Spendable net position:			
Unrestricted		30,422,125	21,934,420
Total spendable net position		30,422,125	21,934,420
Total unrestricted		31,300,184	22,621,102
Total net position	$	79,501,972	72,171,410

(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, 2023, 2022, and 2021. 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, 2023, 2022, and 2021.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2023, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.

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

Governmental Accounting Standards Board Statement No. 100, continued

In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. 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

Events occurring after June 30, 2023, have been evaluated for possible adjustment to the financial statements or disclosure as of December 14, 2023, which is the date the financial statements were available to be issued.

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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, 2023
Last Ten Years*

Fiscal year ending	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Total OPEB Liability						
Service cost	$ 58,330	83,659	80,394	49,892	44,028	42,850
Interest	64,365	50,641	49,263	72,307	66,544	69,476
Experience (gains) losses	-	(161,304)	-	(331,763)	-	-
Changes in assumptions	(31,900)	(445,178)	15,864	410,260	94,386	-
Benefit payments	(39,348)	(43,497)	(40,251)	(45,080)	(41,362)	(39,771)
Net change in total OPEB liability	51,447	(515,679)	105,270	155,616	163,596	72,555
Total OPEB liability – beginning of year	1,808,728	2,324,407	2,219,137	2,063,521	1,899,925	1,827,370
Total OPEB liability – end of year	$ 1,860,175	1,808,728	2,324,407	2,219,137	2,063,521	1,899,925
Covered payroll	$ 4,417,598	4,051,179	3,871,719	3,866,943	4,394,943	4,401,201
Total OPEB liability as a percentage of covered payroll	42.11%	44.65%	60.04%	57.39%	53.36%	44.53%

Notes to schedule:

There were no changes in benefits.

Valuation date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Methods and assumptions used to determine contribution rates:						
Single and agent employers	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	N/A	N/A	N/A	N/A	N/A	N/A
Inflation	2.50%	2.50%	2.75%	2.75%	2.75%	2.75%
Salary increases	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%
Investment rate of return	3.65%	3.54%	2.16%	2.20%	3.50%	3.80%
Mortality, retirement, turnover	(2)	(2)	(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 compiled.

Lake Hemet Municipal Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2023
Last Ten Years*

Description	Measurement Dates 06/30/22	06/30/21	06/30/20	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
District's proportion of the net pension liability	0.11874%	0.13983%	0.10565%	0.10324%	0.09653%	0.09463%	0.08268%	0.07749%	0.07357%
District's proportionate share of the net pension liability	$ 13,715,040	7,562,163	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	$ 4,417,598	4,051,179	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	310.46%	186.67%	296.89%	273.56%	211.65%	213.23%	168.70%	130.32%	114.96%
Plan's fiduciary net position as a percentage of total pension liability	76.68%	88.29%	75.10%	75.26%	75.26%	73.31%	74.06%	83.46%	78.40%

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms

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

Change of Assumptions and Methods

In fiscal year 2022, the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

In fiscal year 2021, there were no changes to actuarial assumptions or methods.

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses.

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability, continued

Change of Assumptions and Methods, continued

These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

In fiscal year 2020, CalPERS implemented a new actuarial valuation software system for the June 30, 2018 valuation. This new system has refined and improved calculation methodology.

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

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017, funding valuation.

However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

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

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

Lake Hemet Municipal Water District
Schedules of Pension Plan Contributions
As of June 30, 2023
Last Ten Years*

Description		Fiscal Years Ended								
		06/30/23	06/30/22	06/30/21	06/30/20	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15
Contractually required contribution (actuarially determined)	$	1,399,956	1,239,985	1,109,575	958,057	846,450	671,388	634,208	339,967	545,434
Contributions in relation to the actuarially determined contribution		(1,399,956)	(1,239,985)	(1,109,575)	(958,057)	(846,450)	(671,388)	(634,208)	(339,967)	(545,434)
Contribution deficiency (excess)	$	-	-	-	-	-	-	-	-	-
Covered payroll	$	4,417,598	4,051,179	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		31.69%	30.61%	28.66%	24.78%	19.26%	15.25%	14.95%	8.33%	14.05%

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

Supplemental Information

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statement of Net Position
For the Fiscal Years Ended June 30, 2023 and 2022

		2023	2022
Current assets:			
Cash and cash equivalents	$	601,871	365,603
Cash and cash equivalents – restricted		134,909	131,287
Accounts receivable – water sales, net		58,000	76,000
Property taxes and assessments receivable		8,397	7,148
Interfund transfer		361,899	364,855
Prepaid expenses and other assets		7,669	6,775
Total current assets		1,172,745	951,668
Non-current assets:			
Capital assets – not being depreciated		6,588	31,558
Depreciable capital assets, net		2,152,395	2,175,344
Total non-current assets		2,158,983	2,206,902
Total assets		3,331,728	3,158,570
Current liabilities:			
Accounts payable and accrued expenses		68,168	41,983
Accrued interest payable		13,094	14,587
Unearned revenue		20,510	17,067
Long-term liabilities – due within one year:			
Compensated absences		11,321	10,688
Bonds payable		80,000	80,000
Loan payable		85,352	85,352
Total current liabilities		278,445	249,677
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Bonds payable		700,000	785,000
Loan payable (Note A)		1,365,631	1,450,983
Total non-current liabilities		2,065,631	2,235,983
Total liabilities		2,344,076	2,485,660
Net position:			
Restricted for debt service		134,909	131,287
Unrestricted		852,743	541,623
Total net position	$	987,652	672,910

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, 2023 and 2022

	2023	2022
Operating revenues:		
Water consumption sales:		
Domestic water sales	$ 425,250	505,506
Total operating revenues	425,250	505,506
Operating expenses:		
Source of supply	12,742	17,469
Pumping	90,146	74,643
Treatment	26,672	12,409
Transmission and distribution	4,424	15,874
Customer accounts	424	485
General and administrative	129,389	118,928
Total operating expenses	263,797	239,808
Operating income before depreciation expense	161,453	265,698
Depreciation expense	(135,385)	(136,644)
Operating income	26,068	129,054
Non-operating revenue (expense):		
Property taxes and assessments	236,144	236,468
Investment earnings	8,490	584
Interest expense	(39,632)	(43,924)
Gain on disposal	127	-
Other non-operating expenses, net	(18,426)	(22,833)
Total non-operating revenues, net	186,703	170,295
Changes in net position	212,771	299,349
Net position, beginning of period, as restated (Note B)	774,881	373,561
Net position, end of period	$ 987,652	672,910

Lake Hemet Municipal Water District
Individual Non-Major Fund – Schedules of Capital Assets – Garner Valley
June 30, 2023 and 2022

Changes in capital assets for the year were as follows:

		Balance 2022	Additions/ Transfers	Deletions/ Transfers	Balance 2023
Non-depreciable assets:					
Land	$	6,588	-	-	6,588
Construction-in-progress		24,970	-	(24,970)	-
Total non-depreciable assets		31,558	-	(24,970)	6,588
Depreciable assets:					
Dams, wells, and reservoirs		354,769	-	-	354,769
Pumping and purification		377,249	141,729	-	518,978
Distribution and transmission		3,426,729	-	(336)	3,426,393
Fire hydrants, services, and meters		307,268	503	-	307,771
Buildings, structures, and grounds		99,290	35	-	99,325
Total depreciable assets		4,565,305	142,267	(336)	4,707,236
Accumulated depreciation		(2,389,961)	(164,880)	-	(2,554,841)
Total depreciable assets, net		2,175,344	(22,613)	(336)	2,152,395
Total capital assets, net	$	2,206,902			2,158,983

Lake Hemet Municipal Water District
Individual Non-Major Fund – Notes to Supplemental Information
June 30, 2023 and 2022

Note A - Loan Payable

Changes in long-term debt for 2023 were as follows:

	Balance 2022	Additions	Payments	Balance 2023	Current Portion	Non-current Portion
Loan payable:						
Garner Valley settlement payable	1,536,335	-	(85,352)	1,450,983	85,352	1,365,631
Total long-term debt	1,536,335	-	(85,352)	1,450,983	85,352	1,365,631

On April 13, 2021, Garner Valley agreed to a settlement with the District in the amount of $1,707,039 regarding repayment of capital improvements paid for by the District. Terms of the agreement calls for an annual payment of principal and interest payable on June 30th each year. The interest on the loan is stated at 1.8% and matures on June 30, 2040.

Year		Principal	Interest	Total
2024	$	85,352	16,619	101,971
2025		85,352	16,619	101,971
2026		85,352	16,619	101,971
2027		85,352	16,619	101,971
2028		85,352	16,619	101,971
2029-2033		426,760	83,095	509,855
2034-2038		426,760	83,095	509,855
2039-2040		170,703	33,238	203,941
Total		1,450,983	282,523	1,733,506
Current		(85,352)		
Non-current	$	1,365,631		

Note B – Prior Period Adjustment

In fiscal year 2023, the District determined that the Garner Valley settlement liability should have been included as part of Garner Valley's books as of June 30, 2023. As a result, $1,536,335 was not recorded in the District's liability account as of June 30, 2021. Therefore, the District has recorded a prior period adjustment to Garner Valley's net position in the amount of 1,536,335 at June 30, 2021.

The adjustment to net position is as follows:

Net position at June 30, 2021, as previously stated			$	1,909,896
Garner Valley Loan Settlement				
Effect of adjustment to loan settlement liability	$	(1,536,335)		
Total adjustment to net position				(1,536,335)
Net position at July 1, 2021, as restated			$	373,561

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 14, 2023.

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.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
December 14, 2023