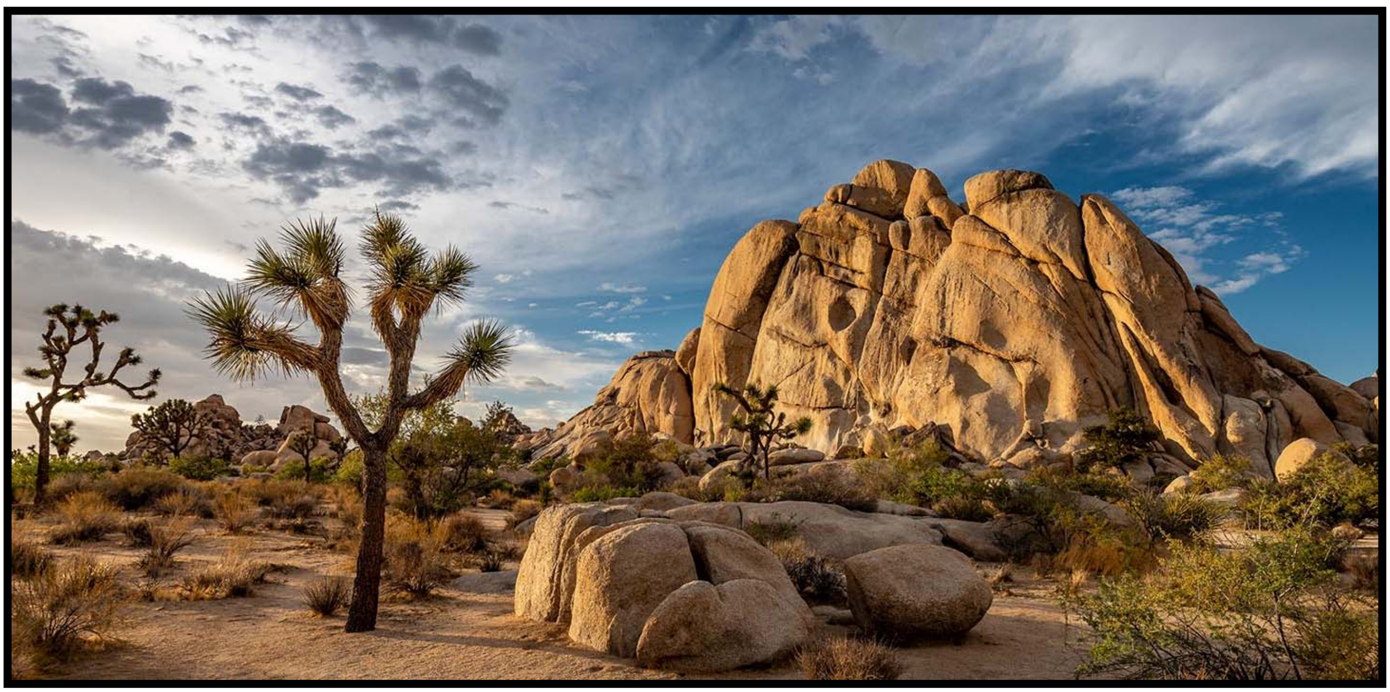
Joshua Basin Water District

Annual Financial Report

Fiscal Years Ended June 30, 2022 and 2021



Our Mission Statement

"To provide, protect, and maintain Joshua Tree's water – our vital community resource."

Board of Directors as of June 30, 2022

Name	Title	Elected/ Appointed	Current Term
Tom Floen	President	Elected	12/20-12/24
Stacy Doolittle	Vice President	Elected	12/20-12/24
Barbara Delph	Director	Appointed	12/18-12/22
Jane Jarlsberg	Director	Elected	12/20-12/24
Open	Director	Open	Open

Joshua Basin Water District
Sarah Johnson, General Manager
61750 Chollita Road
Joshua Tree, California 92252-0675
(760) 366-8438
www.jbwd.com

Joshua Basin Water District

Annual Financial Report

Fiscal Years Ended

June 30, 2022 and 2021

Joshua Basin Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2022 and 2021

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Financial Section

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Independent Auditor's Report

Board of Directors
Joshua Basin Water District
Joshua Tree, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Joshua Basin Water District (District), which comprises the statements of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Joshua Basin Water District as of June 30, 2022 and 2021, and the respective changes in net position, and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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, and the State Controller's Minimum Audit Requirements for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, 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.

Emphasis-of-Matter

Implementation of GASB Statement No. 87

As discussed in Note 15 to the financial statements, the District has adopted the provisions of GASB Statement No. 87 – Leases. As a result, the District has restated its net position to reflect the effects of the change in accounting policy. Our opinion is not modified with respect to this matter.

Waste, Abuse, and Misappropriation of Assets

As discussed in Note 12 to the financial statements, unusual transactions were investigated and determined that assets were misappropriated for the year ended June 30, 2022 and 2021. Our opinion is not modified with respect to this matter.

Other Matters

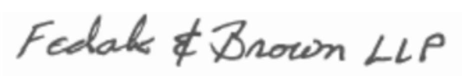
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the required supplementary information on pages 42 through 44 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 45 through 51.



Fedak & Brown LLP
Cypress, California
December 21, 2022

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Joshua Basin Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2022 and 2021. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2022, the District's net position increased 9.51% or $3,814,252 to $43,908,730 as a result of ongoing operations. In 2021, the District's net position increased 6.32% or $2,383,015 to $40,094,478 as a result of ongoing operations.
- Total revenues increased 13.79% or $1,200,735 to $9,909,519. In 2021, the District's total revenues increased 17.34% or $1,287,149 to $8,708,784.
- Operating revenues increased 8.55% or $651,415 to $8,272,429. In 2021, the District's operating revenues increased 19.21% or $1,228,341 to $7,621,014.
- Non-operating revenues increased 50.50% or $549,320 to $1,637,090. In 2021, the District's non-operating revenues increased 5.72% or $58,808 to $1,087,770.
- Total expenses increased 3.42% or $244,218 to $7,390,502. In 2021, the District's total expenses increased 5.32% or $360,879 to $7,146,284.
- Operating expenses increased 8.05% or $398,891 to $5,354,113. In 2021, the District's operating expenses increased 3.57% or $170,982 to $4,955,222.
- Non-operating expenses decreased 18.10% or $117,095 to $529,941. In 2021, the District's non-operating expenses increased 12.40% or $71,366 to $647,036.
- Capital contributions increased 57.86% or $474,720 to $1,295,235. In 2021, the District's capital contributions increased 60.97% or $310,779 to $820,515.

Using This Financial Report

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

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

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 method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. You 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 to the basic financial statements 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 15 through 41.

Statements of Net Position

Condensed Statements of Net Position

	2022	2021	Change	2020	Change
Assets:					
Current assets	$ 18,054,705	15,755,078	2,299,627	13,755,166	1,999,912
Non-current assets	373,052	447,663	(74,611)	522,273	(74,610)
Capital assets, net	31,444,843	30,625,293	819,550	30,218,418	406,875
Total assets	49,872,600	46,828,034	3,044,566	44,495,857	2,332,177
Deferred outflows of resources	463,928	459,615	4,313	454,533	5,082
Liabilities:					
Current liabilities	1,420,711	1,321,656	99,055	1,197,139	124,517
Non-current liabilities	4,935,928	5,866,719	(930,791)	6,031,930	(165,211)
Total liabilities	6,356,639	7,188,375	(831,736)	7,229,069	(40,694)
Deferred inflows of resources	71,159	4,796	66,363	9,858	(5,062)
Net position:					
Net investment in capital assets	26,396,099	25,273,455	1,122,644	24,610,852	662,603
Restricted	4,445,785	4,195,808	249,977	4,755,062	(559,254)
Unrestricted	13,066,846	10,625,215	2,441,631	8,345,549	2,279,666
Total net position	$ 43,908,730	40,094,478	3,814,252	37,711,463	2,383,015

Statements 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 $43,908,730 and $40,094,478, as of June 30, 2022 and 2021, respectively.

Compared to prior year, net position of the District increased 9.51% or $3,814,252. The District's total net position is made up of three components: (1) net investment of capital assets, (2) restricted net position and (2) unrestricted net position.

By far the largest portion of the District's net position (60.12% and 63.03% as of June 30, 2022 and 2021, respectively) reflects the District's net 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 2022 and 2021, the District showed a positive balance in its unrestricted net position of $13,066,846 and $10,625,215, respectively, which may be utilized in future years. See note 11 for further information.

Statements of Revenues, Expenses, and Changes in Net Position

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

	2022	2021	Change	2020	Change
Revenue:					
Operating revenue	$ 8,272,429	7,621,014	651,415	6,392,673	1,228,341
Non-operating revenue	1,637,090	1,087,770	549,320	1,028,962	58,808
Total revenue	9,909,519	8,708,784	1,200,735	7,421,635	1,287,149
Expense:					
Operating expense	5,354,113	4,955,222	398,891	4,784,240	170,982
Depreciation and amortization	1,506,448	1,544,026	(37,578)	1,425,495	118,531
Non-operating expense	529,941	647,036	(117,095)	575,670	71,366
Total expense	7,390,502	7,146,284	244,218	6,785,405	360,879
Net income before capital contributions	2,519,017	1,562,500	956,517	636,230	926,270
Capital contributions	1,295,235	820,515	474,720	509,736	310,779
Change in net position	3,814,252	2,383,015	1,431,237	1,145,966	1,237,049
Net position, beginning of period as restated (note 15)	40,094,478	37,711,463	2,383,015	36,565,497	1,145,966
Net position, end of period	$ 43,908,730	40,094,478	3,814,252	37,711,463	2,383,015

The statement of revenues, expenses, and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, net position increased 9.51% or $3,814,252 to $43,908,730, due to the change in net position of $2,519,017 from ongoing operations and $1,295,235 in capital contributions for the fiscal year ended June 30, 2022. For the fiscal year ended June 30, 2021, the District's net position increased 6.32% or $2,383,015 to $40,094,478, due to the change in net position of $1,562,500 from ongoing operations and $820,515 in capital contributions.

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

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

The District's total revenues (before capital contributions) increased 13.79% or $1,200,735 to $9,909,519. In 2021, the District's total revenues (before capital contributions) increased 17.34% or $1,287,149 to $8,708,784.

In 2022, the District's operating revenues increased 8.55% or $651,415 to $8,272,429, due primarily to increases of $293,297 in water consumption sales, $282,012 in water service charges, $42,636 in standby service charges, and $33,470 in other charges for services as compared to the prior year. In 2021, the District's operating revenues increased 19.21% or $1,228,341 to $7,621,014, due primarily to increases of $823,543 in water consumption sales, $277,831 in water service charges, $100,337 in other charges for services, and $26,630 in standby service charges as compared to the prior year.

In 2022, the District's non-operating revenues increased 50.50% or $549,320 to $1,637,090, due primarily to increases of $806,478 in non-operating revenues and $81,127 in property taxes; which were offset by decreases of $158,446 in investment returns, and $155,272 in HDMC operations revenue as compared to the prior year. In 2021, the District's non-operating revenues increased 5.72% or $58,808 to $1,087,770, due primarily to an increase of $47,108 in gain on disposal of assets as compared to the prior year.

The District's total expenses increased 3.42% or $244,218 to $7,390,502. In 2021, the District's total expenses increased 5.32% or $360,879 to $7,146,284

In 2022, the District's operating expenses increased 8.05% or $398,891 to $5,354,113 due to increases of $303,571 in general and administrative expenses and $80,397 in customer service costs. In 2021, the District's operating expenses increased 3.57% or $170,982 to $4,955,222, due primarily to an increase of $290,104 in pumping, production, and treatment, which was offset by decreases of $47,783 in general and administrative, and $43,278 in customer service costs as compared to the prior year.

In 2022, the District's non-operating expenses decreased 18.10% or $117,095 to $529,941, due primarily to decreases of $137,663 in HDMC project – District expense, $27,313 in debt administration charges, and $23,008 in interest expense; which were offset by an increase of $70,663 in waste and abuse as compared to the prior year. In 2021, the District's non-operating expenses increased 12.40% or $71,366 to $647,036, due primarily to increases of $150,906 in HDMC project – District expense, $68,102 in waste and abuse, $27,447 in debt administration charges; which were offset by a decrease of $169,597 in Morongo Basin Pipeline expenses as compared to the prior year.

In 2022, the District's capital contributions increased 57.86% or $474,720 to $1,295,235, due primarily to increases of $255,280 in state capital grant, $172,642 in water capacity charges, and $44,216 in wastewater capacity charges as compared to the prior year. In 2021, the District's capital contributions increased 60.97% or $310,779 to $820,515, due primarily to increases of $323,044 in water capacity charges, $183,776 in wastewater capacity charges, and $48,381 in state capital grant, which were offset by a decrease of $246,340 in capital contributions as compared to the prior year.

Capital Asset Administration

Changes in capital assets for 2022, were as follows:

	As restated Balance 2021	Additions	Transfers/ Deletions	Balance 2022
Capital assets:				
Non-depreciable assets	$ 1,608,529	2,361,647	(907,081)	3,063,095
Depreciable assets	60,014,671	875,851	(84,339)	60,806,183
Accumulated depreciation	(30,997,907)	(1,506,448)	79,920	(32,424,435)
Total capital assets, net	$ 30,625,293	1,731,050	(911,500)	31,444,843

Changes in capital assets for 2021, were as follows:

	As restated Balance 2020	Additions	Transfers/ Deletions	As restated Balance 2021
Capital assets:				
Non-depreciable assets	$ 1,611,186	1,947,195	(1,949,852)	1,608,529
Depreciable assets	58,410,073	1,953,558	(348,960)	60,014,671
Accumulated depreciation	(29,802,841)	(1,544,026)	348,960	(30,997,907)
Total capital assets, net	$ 30,218,418	2,356,727	(1,949,852)	30,625,293

At the end of fiscal year 2022 and 2021, the District's capital assets amounted to $30,601,826 and $30,212,198 (net of accumulated depreciation), respectively. These capital assets include land, transmission and distribution systems, buildings, equipment, vehicles, and construction-in-process.

See note 6 to the basic financial statements for further detailed information on the District's capital assets.

Debt Administration

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

	As restated Balance 2021	Additions	Payments	Balance 2022
Long-term debt:				
Bonds payable	$ 2,622,000	-	(127,000)	2,495,000
Notes payable	2,705,988	-	(169,788)	2,536,200
Leases payable	23,850	-	(6,306)	17,544
Total long-term debt	$ 5,351,838	-	(303,094)	5,048,744

Debt Administration, continued

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

		As restated Balance 2020	Additions	Payments	As restated Balance 2021
Long-term debt:					
Bonds payable	$	2,743,000	-	(121,000)	2,622,000
Notes payable		2,857,994	-	(152,006)	2,705,988
Leases payable		6,572	20,536	(3,258)	23,850
Total long-term debt	$	5,607,566	20,536	(276,264)	5,351,838

In 2022 and 2021, long-term debt decreased by $303,094 and $276,264, respectively, due to regular scheduled debt payments.

See further detailed information in Note 9.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Director of Finance, Anne Roman at Joshua Basin Water District, 61750 Chollita Road, Joshua Tree, California, 92252 or (760) 366-8438.

Basic Financial Statements

Joshua Basin Water District
Statements of Net Position
June 30, 2022 and 2021

		2022	As restated 2021
Current assets:			
Cash and cash equivalents (note 2)	$	11,706,220	9,518,160
Cash and cash equivalents - restricted (note 2)		4,000,405	3,677,054
Accrued interest receivable		28,165	10,051
Accrued interest receivable - restricted (note 5)		1,406	2,553
Accounts receivable - water sales and services, net (note 3)		1,641,452	1,566,070
Property taxes receivable		8,063	7,851
Special assessments receivable – restricted		70,922	68,538
Grants receivable (note 4)		5,874	33,087
Accounts receivable - other		52,115	127,555
Materials and supplies inventory		324,185	631,455
Prepaid expenses and other deposits		215,898	112,704
Total current assets		18,054,705	15,755,078
Non-current assets:			
Note receivable - restricted (note 5)		373,052	447,663
Capital assets - not being depreciated (note 6)		3,063,095	1,608,529
Capital assets, net - being depreciated (note 6)		28,381,748	29,016,764
Total non-current assets		31,817,895	31,072,956
Total assets		49,872,600	46,828,034
Deferred outflows of resources:			
Deferred pension outflows (note 10)		463,928	459,615
Total deferred outflows of resources	$	463,928	459,615

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Net Position, continued
June 30, 2022 and 2021

		2022	2021
Current liabilities:			
Accounts payable and accrued expenses	$	206,898	175,470
Accrued wages and related payables		90,904	82,143
Customer deposits and unearned revenue		662,139	429,014
Accrued interest payable		114,726	121,628
Long-term liabilities - due within one year:			
Compensated absences (note 7)		37,928	46,562
IDM pipeline liability (note 8)		-	169,597
Bonds payable (note 9)		132,000	127,000
Notes payable (note 9)		170,247	163,936
Leases payable		5,869	6,306
Total current liabilities		1,420,711	1,321,656
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)		113,783	139,687
Bonds payable (note 9)		2,363,000	2,495,000
Notes payable (note 9)		2,365,953	2,542,052
Leases payable		11,675	17,544
Net pension liability (note 10)		81,517	672,436
Total non-current liabilities		4,935,928	5,866,719
Total liabilities		6,356,639	7,188,375
Deferred inflows of resources:			
Deferred pension inflows (note 10)		71,159	4,796
Total deferred inflows of resources		71,159	4,796
Net position: (note 11)			
Net investment in capital assets		26,396,099	25,273,455
Restricted		4,445,785	4,195,808
Unrestricted		13,066,846	10,625,215
Total net position	$	43,908,730	40,094,478

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2022 and 2021

		2022	2021
Operating revenues:			
Water consumption sales	$	3,859,322	3,566,025
Water service charges		2,794,295	2,512,283
Standby service charges		1,259,906	1,217,270
Other charges for services		358,906	325,436
Total operating revenues		8,272,429	7,621,014
Operating expenses:			
Pumping, production, and treatment		1,587,251	1,584,678
Transmission and distribution		852,955	840,605
Customer service		807,781	727,384
General and administrative		2,106,126	1,802,555
Total operating expenses		5,354,113	4,955,222
Operating income before depreciation and amortization expense		2,918,316	2,665,792
Depreciation and amortization expense		(1,506,448)	(1,544,026)
Operating income		1,411,868	1,121,766
Non-operating revenue (expense):			
Property taxes		659,325	578,198
Special assessments for debt service		283,780	256,820
Investment returns		(143,043)	15,403
Morongo Basin pipeline (note 8)		-	-
Interest expense		(206,938)	(229,946)
Debt administration charges		(29,509)	(56,822)
Property tax administration charge		(1,659)	(1,433)
HDMC operations revenue (note 5)		193,101	348,373
HDMC project – District expense (note 5)		(153,070)	(290,733)
Waste and abuse (note 12)		(138,765)	(68,102)
Gain on disposition of assets		(4,419)	47,108
Other non-operating revenues (expenses), net		648,346	(158,132)
Total non-operating revenue, net		1,107,149	440,734
Net income before capital contributions		2,519,017	1,562,500
Capital contributions:			
Water capacity charges		667,035	494,393
Wastewater capacity charges		306,256	262,040
State capital grant		314,944	59,664
Local capital grant - Mojave Water Agency		7,000	4,418
Total capital contributions		1,295,235	820,515
Change in net position		3,814,252	2,383,015
Net position, beginning of year, as restated (note 15)		40,094,478	37,711,463
Net position, end of year	$	43,908,730	40,094,478

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	8,505,612	7,459,189
Cash paid to employees for salaries and wages		(2,660,772)	(1,704,422)
Cash paid to vendors and suppliers for materials and services		(3,012,483)	(3,442,331)
Net cash provided by operating activities		2,832,357	2,312,436
Cash flows from non-capital financing activities:			
Property taxes		458,348	522,759
Waste and abuse		(138,765)	(68,102)
Other non-operating expenses, net		648,346	(158,132)
Net cash provided by non-capital financing activities		967,929	296,525
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,325,998)	(1,950,901)
Gain on disposition of assets		(4,419)	47,108
HDMC project expense		40,031	57,640
Capital contributions		980,291	760,851
Payments received for note receivable		74,611	74,610
Proceeds from capital grants		342,157	31,019
Special assessments for debt service		281,396	280,498
Principal paid on long-term debt		(303,094)	(255,728)
Interest paid on long-term debt		(213,840)	(236,572)
Net cash used in capital and related financing		(1,128,865)	(1,191,475)
Cash flows from investing activities:			
Investment returns		(160,010)	52,352
Net cash (used in) provided by investing activities		(160,010)	52,352
Net increase in cash and cash equivalents		2,511,411	1,469,838
Cash and cash equivalents, beginning of year		13,195,214	11,725,376
Cash and cash equivalents, end of year	$	15,706,625	13,195,214

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

		2022	2021
Cash and cash equivalents	$	11,706,220	9,518,160
Cash and cash equivalents - restricted		4,000,405	3,677,054
Total cash and cash equivalents	$	15,706,625	13,195,214

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2022 and 2021

		2022	2021
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,411,868	1,121,766
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		1,506,448	1,544,026
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
(Increase) decrease in assets:			
Accounts receivable – water sales and services, net		(75,382)	(193,892)
Accounts receivable – other		75,440	(37,999)
Materials and supplies inventory		307,270	(300,647)
Prepaid expenses and other deposits		(103,194)	(32,334)
(Increase) decrease in deferred outflows of resources:			
Deferred pension outflows		(4,313)	(5,082)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		31,428	43,317
Accrued wages and related payables		8,761	2,341
Customer deposits and unearned revenue		233,125	70,066
Compensated absences		(34,538)	(2,645)
Net pension liability		(590,919)	108,581
Increase (decrease) in deferred inflows of resources			
Deferred pension inflows		66,363	(5,062)
Total adjustments		1,420,489	1,190,670
Net cash provided by operating activities	$	2,832,357	2,312,436
Non-cash investing, capital, and financing transactions:			
Changes in fair value of funds deposited with LAIF	$	(198,844)	1,079

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 Joshua Basin Water District (District) was organized in January 1963, under provisions of Division 12 of the Water Code of the State of California. The purpose of the District is to finance, construct, operate, and maintain a water and wastewater system to serve properties within the District's boundaries. The District services approximately 96 square miles in the unincorporated area of Joshua Tree, located in the Morongo Basin of San Bernardino County. The District is governed by a five-member Board of Directors who are elected by qualified voters in the District. The District conducts general meetings of the Board of Directors twice per month, held on the first and third Wednesday’s of the month, at the District’s administration office.

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

The Joshua Basin Water District Copper Mountain Mesa Assessment District (Assessment District) was formed in 1996 to finance the improvements and construction of the potable water system facilities, including pipelines, booster pumping station, water storage reservoir, and the necessary appurtenances. The bonds were sold to the United States Department of Agriculture, who is the sole bondholder. The District’s directors serve as directors of the Assessment District; the District’s General Manager serves as its executive officer. The assets, deferred outflows, liabilities, and deferred inflows of the Assessment District are blended with those of the District in the financial statements.

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 cost of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales 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 value. 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. Non-operating revenues and expenses, such as grant funding, investment income, and interest expense, result from non-exchange transactions in which the District receives value without directly giving value in exchange.

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.

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

C. Financial Reporting, continued

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

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

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

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

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

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

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

C. Financial Reporting, continued

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

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

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

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. Actual results could differ from those estimates.

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 as written in Article 8 of the District's Administration Code. Any surplus funds or funds held for any length of time for special projects shall only be invested with reputable institutions.

The District's investment policy authorizes investments in as certificates-of-deposit and the California Local Agency Investment Fund (LAIF). The District's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

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

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

3. Investments and Investment Policy, continued

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.

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. Property Taxes and Assessments

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

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

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

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe, and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the "First-In, First-Out" (FIFO) method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

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

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Lease asset are measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

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

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

8. Capital Assets, continued

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

- Transmission and distribution system – 3 to 50 years
- Structures and improvements – 10 to 30 years
- Vehicles and large equipment – 5 to 10 years
- Office furniture and equipment – 5 to 10 years
- Water rights – 25 years
- Wastewater system in development – 15 years
- Surveys and plans – 2 to 5 years

Lease asset are amortize in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

9. Deferred Outflows of Resources

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

10. Compensated Absences

The District's policy is to permit employees to accumulate up to two times their annual vacation accrual rate with amounts exceeding the limit being forfeited. Upon termination of employment, employees are paid all unused vacation, floating holiday, and management/administrative leave. The accrual for sick leave does not have a cap and upon termination, sick leave may be converted to CalPERS service credit, based on eligibility. Sick leave not converted is forfeited.

11. Lease Payable

Lease liability are measured at the present value of payments expected to be made during the lease term.

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, 2020 and 2019
- Measurement dates: June 30, 2021 and 2020
- Measurement periods: July 1, 2019 to June 30, 2020 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.

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

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

14. Water Sales and Services

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

15. Capital Contributions

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

16. Net Position

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

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

17. Budgetary Policies

The District adopts an annual 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.

18. Reclassification

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

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30 are classified in the Statements of Net Position as follows:

		2022	2021
Cash and cash equivalents	$	11,706,220	9,518,160
Cash and cash equivalents – restricted		4,000,405	3,677,054
Total cash and investments	$	15,706,625	13,195,214

(2) Cash and Cash Equivalents, continued

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

		2022	2021
Cash on hand	$	2,201	2,300
Deposits held with financial institutions		458,593	184,492
California Local Agency Investment Fund:			
Unrestricted		11,245,426	9,331,368
Restricted		4,000,405	3,677,054
Total cash and investments	$	15,706,625	13,195,214

As of June 30, the District's authorized deposit had the following maturity:

	2022	2021
California Local Agency Investment Fund	311 days	291 days

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Collateralize Bank Deposits	5 years	None	None
Corporate debt – Short and Long Term	5 years	None	None
Commercial Paper – Pooled Funds Commercial Paper – Non-Pooled Funds	270 days	40% of the District's money	10%
Repurchase agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Investment in State Investment Pool

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

(2) Cash and Cash Equivalents, continued

Investment in State Investment Pool, continued

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes 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.

Credit Risk

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

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 (such as LAIF).

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

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 97% and 99% as of June 30, 2022 and 2021, respectively, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Accounts Receivable – Water Sales and Services, net

The balance at June 30 consists of the following:

		2022	2021
Accounts receivable – water sales	$	1,096,517	907,968
Unbilled water sales receivables		611,123	623,466
Standby charges receivables		231,323	206,984
Property liens		29,601	138,311
Allowance for doubtful accounts		(327,112)	(310,659)
Total accounts receivable, net	$	1,641,452	1,566,070

(4) Grants Receivable

Integrated Regional Water Management Plan

The balance at June 30 consists of the following:

		2022	2021
Prop 1 DWR grant – project	$	-	27,213
Prop 1 DWR grant – retention		5,874	5,874
Total grants receivable	$	5,874	33,087

On June 18, 2018, the Coachella Valley Water District and the State of California, Department of Water Resources (DWR), entered into a grant agreement to assist in financing projects associated with the Integrated Regional Water Management Plan (IRWMP) pursuant to Chapter 7 of Division 26.7 of the California Water Code. The maximum amount payable by the State under this grant agreement is not to exceed $2,636,488. The grant agreement consists of twelve separate IRWMP projects for various local sponsors with different allocation amounts – one of which being Joshua Basin Water District for $130,000. The District has utilized grant revenue for the Saddleback Pipeline Project. As of June 30, 2022, all projects associated with the grant agreement are completed, and the remaining retention balance awaiting release from the State amounted to $5,874.

(5) Note Receivable – Hi-Desert Medical Center

On July 1, 2012, the District executed a note receivable with the Hi-Desert Medical Center for $1,119,156 for capacity charges due for sanitary sewer service to the Hi-Desert Medical Center Wastewater Treatment Plant. The note is to be repaid over a 15-year period ($74,610 principal payment per year) with interest charged at the quarterly LAIF interest earnings rate. As of June 30, 2022 and 2021, the remaining principal balance was $373,052 and $447,663, respectively. At June 30, 2022 and 2021, accrued interest receivable on the note was $1,406 and $2,553, respectively, and is included as part of the accrued interest receivable balance in the statements of net position.

Hi-Desert Medical Center Project

In fiscal year 2013, the District was engaged by the Hi-Desert Medical Center (HDMC) to construct and operate the HDMC's Wastewater Treatment Plant (Plant). Please see note 6 for more details of the District's agreement with HDMC. During the construction phase, HDMC made capital contributions to the District for the construction of the Wastewater Treatment Plant in the amount of $2,901,551. Upon completion, it was agreed that HDMC would continue to own the Plant, while the District would be contracted to operate and maintain the Plant.

(5) Note Receivable – Hi-Desert Medical Center, continued

Hi-Desert Medical Center Project, continued

For the fiscal years ended June 30, 2022 and 2021, the District received $193,101 and $348,373, respectively, in reimbursement revenue from HDMC. For the fiscal years ended June 30, 2022 and 2021, the District incurred $153,070 and $290,733, respectively, in reimbursable costs towards the project.

(6) Capital Assets

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

	As restated Balance 2021	Additions/ Transfers	Deletions/ Transfers	Balance 2022
Non-depreciable assets:				
Land and land rights	$ 636,822	-	-	636,822
Construction-in-process	971,707	2,361,647	(907,081)	2,426,273
Total non-depreciable assets	1,608,529	2,361,647	(907,081)	3,063,095
Depreciable assets:				
Transmission and distribution system	43,376,036	473,101	(54,275)	43,794,862
Recharge facilities	9,108,029	-	-	9,108,029
Structures and improvements	1,343,365	18,256	(13,277)	1,348,344
Vehicles and large equipment	3,458,288	313,439	-	3,771,727
Office furniture and equipment	1,259,078	15,157	(16,787)	1,257,448
Wastewater system	22,419	-	-	22,419
Studies and reports	1,415,610	55,898	-	1,471,508
Leased equipment	31,846	-	-	31,846
Total depreciable assets	60,014,671	875,851	(84,339)	60,806,183
Accumulated depreciation:				
Transmission and distribution system	(25,346,150)	(888,446)	54,275	(26,180,321)
Recharge facilities	(1,199,903)	(182,171)	-	(1,382,074)
Structures and improvements	(609,086)	(33,910)	8,858	(634,138)
Vehicles and large equipment	(1,448,475)	(256,420)	-	(1,704,895)
Office furniture and equipment	(947,884)	(70,281)	16,787	(1,001,378)
Wastewater system	(22,419)	-	-	(22,419)
Studies and reports	(1,415,611)	(68,851)	-	(1,484,462)
Leased equipment	(8,379)	(6,369)	-	(14,748)
Total accumulated depreciation	(30,997,907)	(1,506,448)	79,920	(32,424,435)
Total depreciable assets, net	29,016,764	(630,597)	(4,419)	28,381,748
Total capital assets, net	$ 30,625,293	1,731,050	(911,500)	31,444,843

Major depreciable capital asset additions during the fiscal year ended 2022, include upgrades and extensions of the District's water transmission and distribution systems of $473,101, purchases of vehicles and large equipment of $313,439, and studies and reports of $55,898. During the year, the District's deletions included: transmission and distribution replacements of $54,275, office furniture and equipment disposals of $16,787, and structures and improvements of $13,277.

(6) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2021, were as follows:

	As restated Balance 2020	Additions/	Deletions/ Transfers	As restated Balance 2021
Non-depreciable assets:				
Land and land rights	$ 551,019	85,803	-	636,822
Construction-in-process	1,060,167	1,861,392	(1,949,852)	971,707
Total non-depreciable assets	1,611,186	1,947,195	(1,949,852)	1,608,529
Depreciable assets:				
Transmission and distribution system	41,915,426	1,648,340	(187,730)	43,376,036
Recharge facilities	9,108,029	-	-	9,108,029
Structures and improvements	1,343,365	-	-	1,343,365
Vehicles and large equipment	3,543,705	52,008	(137,425)	3,458,288
Office furniture and equipment	1,155,237	127,646	(23,805)	1,259,078
Wastewater system	22,419	-	-	22,419
Studies and reports	1,310,582	105,028	-	1,415,610
Leased equipment	11,310	20,536	-	31,846
Total depreciable assets	58,410,073	1,953,558	(348,960)	60,014,671
Accumulated depreciation:				
Transmission and distribution system	(24,669,424)	(864,456)	187,730	(25,346,150)
Recharge facilities	(1,017,734)	(182,169)	-	(1,199,903)
Structures and improvements	(570,919)	(38,167)	-	(609,086)
Vehicles and large equipment	(1,313,820)	(272,080)	137,425	(1,448,475)
Office furniture and equipment	(911,719)	(59,970)	23,805	(947,884)
Wastewater system	(22,419)	-	-	(22,419)
Studies and reports	(1,291,716)	(123,895)	-	(1,415,611)
Leased equipment	(5,090)	(3,289)	-	(8,379)
Total accumulated depreciation	(29,802,841)	(1,544,026)	348,960	(30,997,907)
Total depreciable assets, net	28,607,232	409,532	-	29,016,764
Total capital assets, net	$ 30,218,418	2,356,727	(1,949,852)	30,625,293

Major depreciable capital asset additions during the fiscal year ended 2021, include upgrades and extensions of the District's water transmission and distribution systems of $1,648,340, purchases of vehicles and large equipment of $52,008, purchases of office furniture and equipment of $127,646, and studies and reports of $105,028. During the year, the District's deletions included: transmission and distribution replacements of $187,730, vehicle surpluses of $137,425, and office furniture and equipment disposals of $23,805.

Construction-In-Process

The District is involved in construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset.

As of June 30, 2022 and 2021, the balance of construction-in-process was $2,426,273 and $971,707, respectively.

(6) Capital Assets, continued

Construction-in-process consisted of the following projects:

Project Description		2022	2021	2020
Well 14 – 4 log treatment	$	1,154,539	580,959	-
Tilford Way Pipeline project		990,080	254,628	170,330
Urban Water Management Plan		96,972	-	-
D-1 Booster Design		92,262	-	-
Building/Customer Service Area		57,167	-	-
Various other minor projects < $50,000		35,253	136,120	113,201
Total construction-in-process	$	2,426,273	971,707	1,060,167

(7) Compensated Absences

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
$	186,249	192,433	(226,971)	151,711	37,928	113,783

Changes to compensated absences for 2021 were as follows:

	Balance 2020	Earned	Taken	Balance 2021	Due within one year	Due in more than one year
$	188,894	272,768	(275,413)	186,249	46,562	139,687

(8) Morongo Basin – IDM Pipeline Liability

During the year ended June 30, 1991, the District executed an agreement for construction, operation, and financing of the Morongo Basin Pipeline project with the Mojave Water Agency (Agency). Pursuant to this Agreement, the Agency has constructed a pipeline to supply, on a wholesale basis, certain areas of San Bernardino County, including the Joshua Basin Water District, with water from the State Water Project. Voters within the area to be served by the pipeline project approved the issuance of $66,500,000 in general obligation bonds to finance the pipeline project. This resulted in the formation of Improvement District M of the Mojave Water Agency. The District has agreed to make certain payments to the Agency to cover the District's share of fixed project costs, including debt service.

The District is obligated to pay 27% of the debt service on Improvement District M's general obligation bonds. Improvement District M bonds are general obligations of the Mojave Water Agency and are secured by and payable from the taxes levied upon the taxable property in Improvement District M. As part of the agreement, approximately 70% of the debt service will be derived from the levy of taxes on properties within Improvement District M, and 30% of the debt service will be derived from payments to be made by the Mojave Water Agency participants.

During fiscal year 2020, the District was notified by the Agency that it maintained sufficient debt service reserves and further tax apportionments would be terminated. The Agency projected the final debt service payment that would be required in May 2022 for each IDM pipeline participant based on the percentage share of the pipeline. Of the total final projected payment totaling $628,136, the District's is responsible for a 27% share or $169,597 as of June 30, 2021.

Of the total June 30, 2021 balance, the District made final payments amounted to $77,361 and the remaining balance of $92,236 was forgiven by the Agency.

(9) Long-Term Debt

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

	As restated Balance 2021	Additions	Payments	Balance 2022	Current Portion	Long Term Portion
Bonds payable:						
1996 Bond	$ 2,622,000	-	(127,000)	2,495,000	132,000	2,363,000
Note payable:						
Installment Sale #18-012	2,705,988	-	(169,788)	2,536,200	170,247	2,365,953
Leases payable:						
Xerox C8170	19,581	-	(3,894)	15,687	4,012	11,675
Xerox C8035	4,269	-	(2,412)	1,857	1,857	-
Total long-term debt	$ 5,351,838	-	(303,094)	5,048,744	308,116	4,740,628

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

	As restated Balance 2020	Additions	Payments	As restated Balance 2021	Current Portion	Long Term Portion
Bonds payable:						
1996 Bond	$ 2,743,000	-	(121,000)	2,622,000	127,000	2,495,000
Note payable:						
Installment Sale #18-012	2,857,994	-	(152,006)	2,705,988	163,936	2,542,052
Leases payable						
Xerox C8170	-	20,536	(955)	19,581	3,894	15,687
Xerox C8035	6,572	-	(2,303)	4,269	2,412	1,857
Total long-term debt	$ 5,607,566	20,536	(276,264)	5,351,838	297,242	5,054,596

1996 Limited Obligation Improvement Bond

In March 1996, the District authorized the issuance of $4,551,389 in Copper Mountain Mesa limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913. The bonds are payable and secured solely by special assessments on property parcels and amounts are collected and paid by the District. The District is not obligated to, but may in its sole discretion, advance available surplus funds from the District treasury. The bonds bear an interest of 4.5% per annum. Principal and interest are payable on March 2nd and September 2nd of each year.

(9) Long-Term Debt, continued

1996 Limited Obligation Improvement Bond, continued

Future principal and interest obligations on the bonds as of June 30, are as follows:

Year	Principal	Interest	Total
2023	$ 132,000	109,305	241,305
2024	138,000	103,230	241,230
2025	145,000	96,862	241,862
2026	150,000	90,225	240,225
2027	157,000	83,318	240,318
2028-2032	899,000	301,296	1,200,296
2033-2036	874,000	80,775	954,775
Total	2,495,000	865,011	3,360,011
Current	(132,000)		
Long-term	$ 2,363,000		

2018 Installment Sale Agreement #18-012

On September 1, 2018, the District entered into an agreement with the Municipal Finance Corporation ("Corporation") whereas the District purchases the 2018 Project ("Project") from the Corporation. The Project refers to any additions, betterments, extensions, or improvements to the Water System designated by the Board of the District as the Project, of which is to be paid by the proceeds of any contract.

The agreement provides for a total funding of $3,010,000 for the Capital Infrastructure Replacement Program ("CIRP") as well as the initial project associated with the CIRP – the replacement of approximately 23,500 feet of existing watermains with poly-vinyl chloride watermains, called the Saddleback Project. A substantial portion of startup costs are for purchase of large pipelaying and asphalt equipment that will be utilized over a 10-year period to complete additional CIRP pipeline replacement projects. Funding may also cover new appurtenances related to the new watermains, as well as other related expenditures.

Future principal and interest obligations on the agreement as of June 30, are as follows:

Year	Principal	Interest	Total
2023	$ 170,247	97,644	267,891
2024	176,802	91,089	267,891
2025	183,609	84,282	267,891
2026	190,678	77,213	267,891
2027	198,019	69,872	267,891
2028-2032	1,110,491	229,143	1,339,634
2033-2034	506,354	29,426	535,780
Total	2,536,200	678,669	3,214,869
Current	(170,247)		
Long-term	$ 2,365,953		

(9) Long-Term Debt, continued

Xerox Financial Services, LLC – C8170

On April 8, 2021, the District entered into an agreement with Xerox Financial Services, LLC for the purpose of acquiring a Xerox copier for its Administrative Office. Terms of the agreement commenced in April 2021 and matures in March 2026. As of June 30, 2022 and 2021, rental payments amounted to $3,894 and $955, respectively.

Following the guidelines of *GASB Statement No. 87*, the District recorded a right-to-use asset and a lease payable at present value using an interest rate of 3%. The right-to-use asset is amortized on a straight-line basis over the term of the lease.

Annual lease payments are as follows:

Year	Principal	Interest	Total
2023	$ 4,012	416	4,428
2024	4,134	294	4,428
2025	4,260	168	4,428
2026	3,281	41	3,322
Total	15,687	919	16,606
Current	(4,012)		
Long-term	$ 11,675		

Xerox Financial Services, LLC – Xerox C8035

On April 1, 2018, the District entered into an agreement with Xerox Financial Services, LLC for the purpose of acquiring a Xerox copier for its Shop Building Office. Terms of the agreement commenced in April 2018 and matures in March 2023. As of June 30, 2022 and 2021, rental payments amounted to $2,412 and $2,303, respectively.

Following the guidelines of *GASB Statement No. 87*, the District recorded a right-to-use asset and a lease payable at present value using an interest rate of 3%. The right-to-use asset is amortized on a straight-line basis over the term of the lease.

Annual lease payments are as follows:

Year	Principal	Interest	Total
2023	$ 1,857	23	1,880
Total	1,857	23	1,880
Current	(1,857)		
Long-term	$ -		

(10) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Risk Pool, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government 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: 400 P Street, Sacramento, CA 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 effective December 31, 2013. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provision and benefits in effect as of June 30, 2022 and 2021, are summarized as follows:

	Miscellaneous Risk Pool	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
2022:		
Required employee contribution rates	6.910%	7.250%
Required employer contribution rates	11.600%	7.730%
2021:		
Required employee contribution rates	6.908%	7.250%
Required employer contribution rates	11.746%	7.874%

(10) Defined Benefit Pension Plan, 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 the actuary and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

		2022	2021
Contributions – employer	$	262,145	238,632

Net Pension Liability

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

		2022	2021
Proportionate share of net pension liability	$	81,517	672,436

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

The District's change in the proportionate share of the net pension liability for the Plan as of the fiscal years end June 30, was as follows:

	Miscellaneous
Proportion – June 30, 2019	0.00550%
Increase in proportion	0.00068%
Proportion – June 30, 2020	0.00618%
Increase in proportion	-0.00467%
Proportion – June 30, 2021	0.00151%

For the fiscal years ended June 30, 2022 and 2021, the District recognized pension (credit) expense of $(266,724) and $337,069, respectively.

(10) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

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

	2022		2021	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 262,145	-	238,632	-
Differences between actual and expected experience	9,141	-	34,653	-
Changes in assumptions	-	-	-	(4,796)
Net difference between projected and actual earnings on plan investments	-	(71,159)	19,976	-
Differences between actual contribution and proportionate share of contribution	67,386	-	75,889	-
Net adjustment due to differences in proportions of net pension liability	125,256	-	90,465	-
Total	$ 463,928	(71,159)	459,615	(4,796)

As of June 30, 2022 and 2021, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement dates of $262,145 and $238,632, respectively, will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2023 and 2022, respectively.

As of June 30, 2022, other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows/(Inflows) of Resources
2023	$ 91,571
2024	56,806
2025	11,252
2026	(29,005)
2027	-
Remaining	-

(10) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2020 and 2019, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2020 and 2019
Measurement dates	June 30, 2021 and 2020
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Discount rate	7.15%
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 2.50% until Purchasing Power applies, 2.50% thereafter

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

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2021 and 2020, for the PERF C CalPERS Plan was 7.15%. This discount rate is not adjusted for administrative expenses.

The PERF C fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for those pension plan's investments were applied to all periods of projected benefit payments to determine the total pension liability.

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

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

(10) Defined Benefit Pension Plan, continued

Discount Rate

As of June 30, 2022, the table below reflects the target allocation and the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate.

Asset Class	New Strategic Allocation	Real Return Years 1-10	Real Return Year 11+
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	77.00%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

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

The following tables present 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 proportional 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, 2022, the discount rate comparison was the following:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 753,947	81,517	(474,370)

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

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 1,266,900	672,436	181,249

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 42 and 44 for the Required Supplementary Information.

Payable to the Pension Plan

As of June 30, 2022 and 2021, the District reported no payables for the outstanding amount of contribution to the pension plan.

(11) Net Position

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

		2022	2021
Net investment in capital assets:			
Capital assets, not being depreciated	$	3,063,095	1,608,529
Depreciable capital assets, net		28,381,748	29,016,764
Current:			
Bonds payable		(132,000)	(127,000)
Notes payable		(170,247)	(157,858)
Leases payable		(5,869)	(6,306)
Non-current:			
Bonds payable		(2,363,000)	(2,622,000)
Notes payable		(2,365,953)	(2,700,136)
Leases payable		(11,675)	(17,544)
Total net investment in capital assets		26,396,099	24,994,449
Restricted net position:			
Cash and cash equivalents – restricted		4,000,405	3,677,054
Accrued interest receivable – restricted		1,406	2,553
Special assessments receivable – restricted		70,922	68,538
Note receivable – Hi-Desert Medical Center, restricted		373,052	447,663
Total restricted net position		4,445,785	4,195,808
Unrestricted net position			
Non-spendable net position:			
Materials and supplies inventory		324,185	631,455
Prepaid expenses and other deposits		215,898	112,704
Total non-spendable net position		540,083	744,159
Spendable net assets are designated as follows:			
Unrestricted		12,526,763	10,160,062
Total spendable net position		12,526,763	10,160,062
Total unrestricted net position		13,066,846	10,904,221
Total net position	$	43,908,730	40,094,478

(12) Misappropriation, Waste, and Abuse

In fiscal year 2022 and 2021, certain purchases of equipment were identified as unusual transactions. Upon investigation, it was discovered that approximately $138,765, and $68,102 was misappropriated as of June 30, 2022 and 2021. The District has initiated and cooperated with a criminal investigation with local law enforcement. In addition, the District plans to recover its loss using any measures available.

(13) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors. At June 30, 2022 and 2021, the market value of all plan assets held in trust by MissionSquare was $915,814 and $1,038,638, respectively.

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

(14) Risk Management

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

At June 30, 2021, the District participated in the liability, property, and worker' compensation programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $5,000,000, combined single limit at $5,000,000 per occurrence. The JPIA purchases additional excess coverage up to $55 million per occurrence for general, auto, and public officials' liability, which increases the limits on the insurance coverage noted above.
- Cyber liability coverage is included for all Agencies participating in the Liability Program. It protects the District from risks relating to information technology infrastructure and activities by first and third parties. The limit is $3,000,000 per loss/$5,000,000 program annual aggregate. The retention is based on total insurable value – the District's retention is $100,000 per loss.
- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty, forgery or alteration, and computer fraud, subject to a $1,000 deductible per loss. JPIA pools for the first $100,000; excess coverage is purchased through National Union Fire Insurance Company of Pittsburgh.
- Property loss, including boiler and machinery coverage is paid at the replacement cost for buildings, fixed equipment, and personal property of $22,265,520 subject to a $5,000 deductible per occurrence. Repairs or replacement must be completed within two years, otherwise loss is valued on an actual cash value basis. Mobile equipment and vehicles are valued based on actual cash value at time of loss, subject to a $5,000 deductible per occurrence. ACWA JPIA has purchased excess coverage up to $500 million.

(14) Risk Management, continued

- Workers' compensation insurance up to California statutory limits for all work-related injuries/illnesses covered by California law, and employer's liability limit of $4 million. The ACWA JPIA is self-insured up to $2 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the fiscal years ended June 30, 2022, 2021, and 2020 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 was no IBNR claims payable as of June 30, 2022, 2021, and 2020.

(15) Prior Period Adjustment

In 2022, the District implemented GASB Statement No. 87, Leases. The nature, justification, and an explanation of the change are included in note 1.C. As a result of the implementation, the District recognized the leased assets, leased amortization and leases payable and recorded prior period adjustments of $1,910, to establish beginning balances as of July 1, 2019.

The adjustment to net position is as follows:

Net position at July 1, 2019, as previously stated	$	36,563,587
Effect of adjustment to record leased assets		11,310
Effect of adjustment to record leased amortization		(2,828)
Effect of adjustment to record leases payable		(6,572)
Total adjustments		1,910
Net position at July 1, 2019, as restated	$	36,565,497

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2022 that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 91

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

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

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

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

Governmental Accounting Standards Board Statement No. 94

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

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

Governmental Accounting Standards Board Statement No. 96

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

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

Governmental Accounting Standards Board Statement No. 97

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

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

Governmental Accounting Standards Board Statement No. 97, continued

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

Governmental Accounting Standards Board Statement No. 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.

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

Governmental Accounting Standards Board Statement No. 100, continued

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. 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.

(17) Commitments and Contingencies

Grant Awards

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

(17) Commitments and Contingencies, continued

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

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

(18) Subsequent Events

Events occurring after June 30, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of December 21, 2022, which is the date the financial statements were available to be issued.

Required Supplementary Information

Joshua Basin Water District
Schedules of the District's Proportionate Share of Net Pension Liability
As of June 30, 2022
Last Ten Years*

		Measurement Dates							
Description		**6/30/2021**	**6/30/2020**	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/30/2016**	**6/30/2015**	**6/30/2014**
District's proportion of the net pension liability		0.00151%	0.00618%	0.00550%	0.00490%	0.00495%	0.00439%	0.00394%	0.00475%
District's proportionate share of the net pension liability	$	81,517	672,436	563,855	472,046	490,750	379,802	270,679	288,403
District's covered payroll	$	1,963,492	1,950,376	1,743,402	1,467,121	1,462,157	1,344,686	1,384,706	1,385,361
District's proportionate share of the net pension liability as a percentage of its covered payroll		4.15%	34.48%	32.34%	32.17%	33.56%	28.24%	19.55%	20.82%
District's proportionate share of fiduciary net position as a percentage of total pension liability		98.40%	84.95%	85.77%	85.56%	82.83%	83.60%	87.09%	83.03%

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 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. 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.

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

Change of Assumptions and Methods, continued

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.

Joshua Basin Water District
Schedules of Pension Plan Contributions
As of June 30, 2022
Last Ten Years*

Description	Fiscal years ended 6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	$ 270,609	243,362	189,373	170,464	144,890	145,219	143,957	148,451
Contributions in relation to the actuarially determined contribution	(270,609)	(243,362)	(189,373)	(170,464)	(144,890)	(145,219)	(143,957)	(148,451)
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-
District's covered payroll	$ 1,963,492	1,950,376	1,743,402	1,467,121	1,462,157	1,344,686	1,384,706	1,385,361
Contributions as a percentage of covered payroll	13.78%	12.48%	10.86%	11.62%	9.91%	10.80%	10.40%	10.72%

Notes to the Schedule of Pension Plan Contributions

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

Report on Internal Controls and Compliance

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

Board of Directors
Joshua Basin Water District
Joshua Tree, 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 business-type activities of Joshua Basin Water District (District) as of and for the fiscal years ended June 30, 2022 and 2021, 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 21, 2022

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. For the year ended June 30, 2021, we identified certain deficiencies in internal control, as described in the accompanying schedule of findings and responses as items 2021-001, 2021-002, 2021-003, 2021-004, and 2021-005 that we consider to be material weaknesses.

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

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses.

The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 21, 2022

Joshua Basin Water District
Schedule of Findings and Responses
For the Year Ended June 30, 2021

Material Weakness in Internal Control over Financial Reporting - Misappropriation of Assets

Reference Number: 2021-001

Criteria:

Proper Board adopted policies, internal controls, communication, and oversight will reduce the risk of misappropriation of assets.

Condition:

During our audit, we noted unusual purchases of electronic assets which were determined to be a misappropriation of District funds through fraudulent transactions made on the District's credit card by the former General Manager.

Cause of Condition:

We noted the District does not have board adopted polices, internal controls, communication, and oversight in place to prevent and deter the risk of misappropriation.

Effect or Potential Effect of Condition:

Without board adopted policies, internal controls, communication, and oversight will reduce the risk of misappropriation of assets.

Recommendation:

We recommend the District adopt a formal board approved policies over purchasing and credit cards, strengthen related internal controls, improve communication channels between employees, management, and the board, and add oversight controls to reduce the risk of financial misappropriation.

Views of Responsible Official(s):

Management agrees with the audit finding. The District will be reviewing and amending its existing policies and procedures to ensure that its internal controls over purchasing are sound. In addition, the District will improve communication channels between employees, management, and the board, and add oversight controls to reduce the risk of financial misappropriation. This will allow for a clear process and ensure timely mitigation to reduce the risk of waste and abuse.

Planned Corrective Action:

The Administrative Code is under review for revision of the General Manager's purchasing authority and a Purchasing Policy is being drafted for board approval. A newly updated Purchasing Procedure, upon which the board approved Purchasing Policy will be based, was enacted. Several policies are under review and additional policies are scheduled for review. Staff responsibilities are being modified and/or positions added, which will improve internal controls.

Material Weakness in Internal Control over Financial Reporting - Purchasing Policy

Reference Number: 2021-002

Criteria:

Good internal control requires that procedures be documented and performed in a consistent manner in accordance with approved District policy.

Condition:

We noted written policies and procedures for current financial processes for payables have not been developed or approved by the Board of Directors.

Cause of Condition:

The District does not have clear guidelines and processes for matching purchases to controls. As such, there is a lack of sufficient controls to ensure that misappropriation can be properly identified, flagged so that it can be properly addressed in a timely manner.

Effect or Potential Effect of Condition:

Without written procedures, tasks may not be performed in a consistent manner. Written procedures are helpful if someone else has to perform duties that he/she normally would not perform.

Recommendation:

We recommend that the District develop written policies and procedures for financial processes for payables. We further recommend that the District review, amend, and develop written policies and procedures for all current financial processes including cash and investments, receivables, capital assets, and fund balance.

Views of Responsible Official(s):

Management agrees with the audit finding. The District will develop written policies and procedures for financial processes for payables. The District will consider the development of written policies and procedures for all current financial processes including cash and investments, receivables, capital assets, and fund balance.

Planned Corrective Action:

A newly updated Purchasing Procedures, upon which the board approved Purchasing Policy will be based was enacted. Additional policies have been selected for review.

Material Weakness in Internal Control over Financial Reporting - Credit Card Policy

Reference Number: 2021-003

Criteria:

Good internal control requires that procedures be documented and performed in a consistent manner in accordance with approved District policy.

Condition:

We noted requires a Credit Card Issuance and Acknowledgement Form for employee's who have custody of District credit cards. As part of our procedures, we noted that the former General Manager's acknowledgment form was not signed, however, the form was signed for issuance approval.

Cause of Condition:

The District has missing substantive documentation that the former General Manager is aware of policy existence, usage limits, required reconciliation process, and necessary approvals.

Effect or Potential Effect of Condition:

Without the signed form, the District cannot confirm that employee is substantive documentation that the employee is aware of policy existence, usage limits, required reconciliation process, and necessary approvals

Recommendation:

We recommend that the District review all existing Credit Card Issuance and Acknowledgment Forms and audit whether signatures have been obtained by all employees which have custody of District issued credit cards. We further recommend the District add controls to ensure that District credit cards are not issued prior to obtaining signed agreements. We recommend the District require monthly reconciliations from the employees which document the propriety and necessity of the charges. We recommend the District consider reviewing the necessity for the number of issued cards it has, the limits and controls over how each of the cards are monitored by position, and consider using expense reimbursement in certain circumstances as an alternative to issued credit cards.

Views of Responsible Official(s):

Management agrees with the audit finding. The District will review all existing Credit Card Issuance and Acknowledgment Forms and audit whether signatures have been obtained by all employees which have custody of District issued credit cards. The District will add controls to ensure that District credit cards are not issued prior to obtaining signed agreements. The District will require monthly reconciliations from the employees which document the propriety and necessity of the charges. The District will consider reviewing the necessity for the number of issued cards it has, the limits and controls over how each of the cards are monitored by position, and consider using expense reimbursement in certain circumstances as an alternative to issued credit cards.

Planned Corrective Action:

The signed Credit Card Issuance and Acknowledgment form was, in fact, on file and later located as a back page of a scanned document. A Credit Card log, requiring certification of purpose, is being attached to each statement and is signed by both the cardholder, the Supervisor, and reviewed by a Director. Additionally, a more comprehensive Credit Card Policy is in process of being reviewed and implemented.

Material Weakness in Internal Control over Financial Reporting - Internal Communication Policy

Reference Number: 2021-004

Criteria:

Good internal communication policy encourages open communication about all matters to ensure that issues are properly addressed in a timely manner.

Condition:

We noted the District does not have a clear process of communication between members of management and the Board. Based on interviews of staff, our conclusion is that personnel have restricted from communicating in an open and direct manner with the Board. We noted specifically that, expenditures related to the misappropriation exceeded the Board approved budget in fiscal year 2021 and 2022 and that the purchases in aggregate exceeded the District’s written procedure to require Board approval for amounts greater than $20,000.

Cause of Condition:

The District does not have a written policy which defines a clear process of communication between members of management and the Board. Based on interviews of management, our understanding is that personnel have understood in the past that they cannot communicate in an open and direct manner to the Board.

Effect or Potential Effect of Condition:

Without a clear defined policy on internal communication, District employees will misinterpret the appropriateness of communicating issues in a timely manner.

Recommendation:

We recommend that the District review its processes and procedures related to communication between employees, management, and the Board and adopt a formal policy for internal communication. We further recommend the District require reviews of budget to actual variances and obtain Board approval to amend the budget for material variances.

Views of Responsible Official(s):

Management agrees with the audit finding. The District will review its processes and procedures related to communication between employees, management, and the Board and adopt a formal policy for internal communication. The District will consider the requirement of reviews of budget to actual variances and require Board approval to amend the budget line items for material variances.

Planned Corrective Action:

The Administrative Code is under review for revision of the General Manager's purchasing authority. Board members have taken a more active role, asking more questions, and Staff has provided better instructions for check signing procedures, along with a quick access Budgetary reference. Also, the leadership team has changed and is working hard to promote an open-door policy.

Material Weakness in Internal Control over Financial Reporting - Whistle Blower Policy

Reference Number: 2021-005

Criteria:

A good Whistleblower policy facilitates a clear method and process of employee communication to assist in the prevention and deterrence of fraud. The policy is communicated in employee handbooks and regular staff memo's or communications.

Condition:

We noted the although the District stated it has a whistleblower notice, there is no contact number listed for employees to provide anonymous tips. In addition we noted it is not clear to employees and management on how to communicate known or suspected fraud.

Cause of Condition:

The District does not have a written policy which defines a clear method and process of employee communication to assist in the prevention and deterrence of fraud. In addition, the policy does not have a means to communicate anonymous tips such as a phone number.

Effect or Potential Effect of Condition:

Without a clear defined policy and means of communication the District cannot ensure that employees have a clear method of notifying management and the Board anonymously, of discovered or suspected fraud without concern of reprisal or loss of employment.

Recommendation:

We recommend that the District adopt a formal whistleblower policy that sets forth the process and clearly describes how to communicate known or suspected fraud. We recommend the District require the policy noticed on signage posted in employee common areas at the District such as staff breakrooms, kitchens, and warehouse locations. We further recommend the communication include a hotline to provide anonymous tips.

Views of Responsible Official(s):

Management agrees with the audit finding. The District will adopt a formal whistleblower policy that sets forth the process and clearly describes how to communicate known or suspected fraud. The District will require the policy noticed on signage posted in employee common areas at the District such as staff breakrooms, kitchens, and warehouse locations. The District will consider providing the means, such as a hotline, to provide anonymous tips.

Planned Corrective Action:

The District has a Whistle Blower policy included in its Employee Handbook and displayed on a common-area poster. The District is exploring contracting with a paid hotline service and also providing fraud identification and ethics training to Staff.