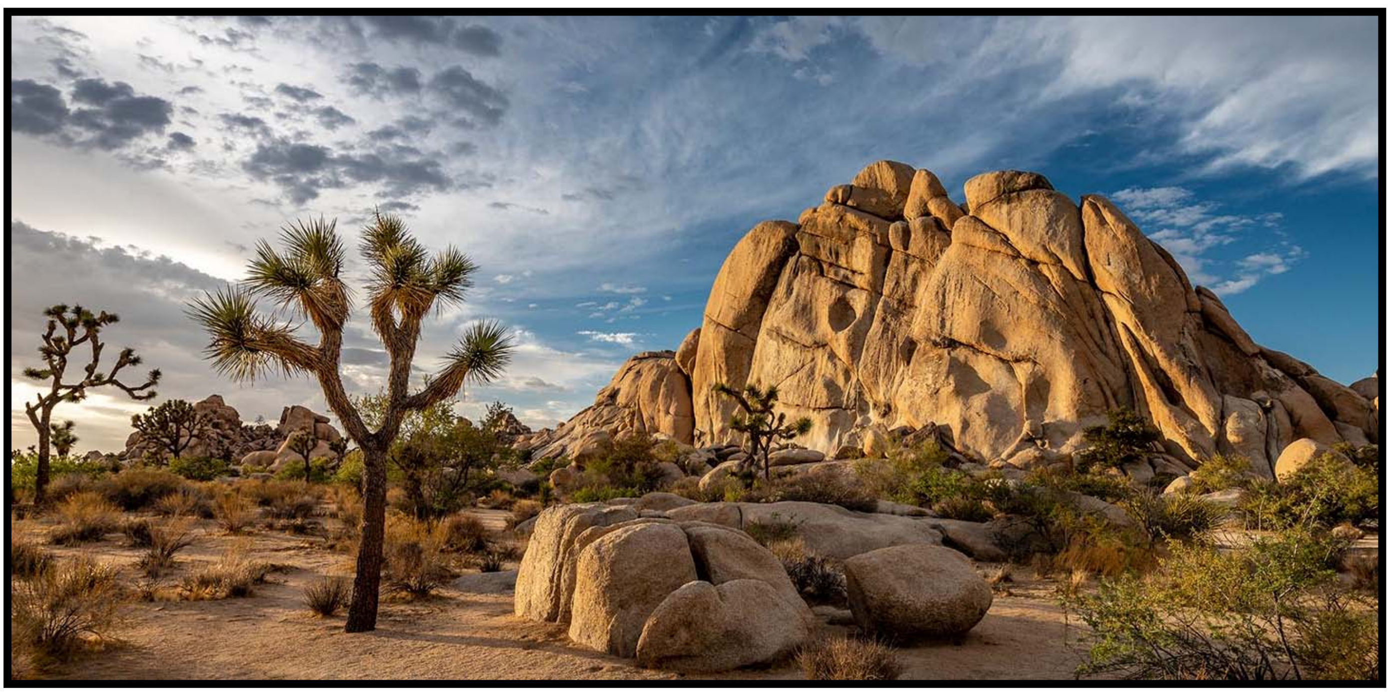
JOSHUA BASIN WATER DISTRICT

Joshua Basin Water District

Annual Financial Report

Fiscal Years Ended June 30, 2021 and 2020



JOSHUA BASIN WATER DISTRICT

Proudly providing water from an ancient source...well into the future

Board of Directors as of June 30, 2021

Name	Title	Elected/ Appointed	Current Term
Rebecca Unger	President	Elected	12/18-12/22
Tom Floen	Vice President	Elected	12/20-12/24
Mike Reynolds	Director	Elected	12/18-12/22
Jane Jarlsberg	Director	Elected	12/20-12/24
Stacy Doolittle	Director	Elected	12/20-12/24

Joshua Basin Water District
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, 2021 and 2020

Joshua Basin Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2021 and 2020

Table of Contents

Financial Section

Fedak & Brown LLP
Certified Public Accountants

Christopher J. Brown, CPA, CGMA
Jonathan Abadesco, CPA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Independent Auditor's Report, continued

Emphasis-of-Matter

Waste, Abuse, and Misappropriation of Assets

As discussed in Notes 12 and 17 to the financial statements, unusual transactions were investigated and determined that assets were misappropriated. 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 3 through 8 and the required supplementary information on pages 44 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 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 44 and 45.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
June 29, 2022

Joshua Basin Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2021 and 2020

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, 2021 and 2020. 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 2021, the District's net position increased 6.32% or $2,383,046 to $40,094,861 as a result of ongoing operations. In 2020, the District's net position increased 3.14% or $1,148,228 to $37,711,815 as a result of ongoing operations.
- In 2021, the District's total revenues increased 16.03% or $1,224,833 to $8,866,916. In 2020, the District's total revenues increased 11.37% or $780,030 to $7,642,083.
- In 2021, the District's operating revenues increased 19.21% or $1,228,341 to $7,621,014. In 2020, the District's operating revenues increased 13.22% or $746,375 to $6,392,673.
- In 2021, the District's non-operating revenues decreased 0.28% or $3,508 to $1,245,902. In 2020, the District's non-operating revenues increased 2.77% or $33,655 to $1,249,410.
- In 2021, the District's total expenses increased 4.29% or $300,794 to $7,304,385. In 2020, the District's total expenses decreased 15.81% or $1,315,368 to $7,003,591.
- In 2021, the District's operating expenses increased 3.64% or $174,242 to $4,958,482. In 2020, the District's operating expenses decreased 18.33% or $1,073,807 to $4,784,240.
- In 2021, the District's non-operating expenses increased 1.14% or $9,048 to $805,166. In 2020, the District's non-operating expenses increased 29.59% or $181,764 to $796,118.
- In 2021, the District's capital contributions increased 60.97% or $310,779 to $820,515. In 2020, the District's capital contributions increased 206.95% or $343,673 to $509,736.

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 14 through 41.

Statements of Net Position

Condensed Statements of Net Position

	2021	2020	Change	2019	Change
Assets:					
Current assets	$ 15,755,078	13,755,166	1,999,912	13,010,870	744,296
Non-current assets	447,663	522,273	(74,610)	596,883	(74,610)
Capital assets, net	30,601,826	30,212,198	389,628	29,969,302	242,896
Total assets	46,804,567	44,489,637	2,314,930	43,577,055	912,582
Deferred outflows of resources	459,615	454,533	5,082	430,690	23,843
Liabilities:					
Current liabilities	1,315,350	1,194,836	120,514	1,235,008	(40,172)
Non-current liabilities	5,849,175	6,027,661	(178,486)	6,209,150	(181,489)
Total liabilities	7,164,525	7,222,497	(57,972)	7,444,158	(221,661)
Deferred inflows of resources	4,796	9,858	(5,062)	-	9,858
Net position:					
Net investment in capital assets	25,273,838	24,611,204	662,634	24,100,302	510,902
Restricted	4,197,123	4,071,223	125,900	3,046,180	1,025,043
Unrestricted	10,623,900	9,029,388	1,594,512	9,417,105	(387,717)
Total net position	$ 40,094,861	37,711,815	2,383,046	36,563,587	1,148,228

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 $40,094,861 and $37,711,815, as of June 30, 2021 and 2020, respectively.

Compared to prior year, net position of the District increased 6.32% or $2,383,046. The District's total net position is made up of three components: (1) net investment of capital assets, (2) restricted, and (3) unrestricted.

By far the largest portion of the District's net position (63.04% and 65.26% as of June 30, 2021 and 2020, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2021 and 2020, the District showed a positive balance in its unrestricted net position of $10,623,900 and $9,029,388, respectively, which may be utilized in future years. See note 12 for further information.

Statements of Revenues, Expenses, and Changes in Net Position

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

	2021	2020	Change	2019	Change
Revenue:					
Operating revenue	$ 7,621,014	6,392,673	1,228,341	5,646,298	746,375
Non-operating revenue	1,245,902	1,249,410	(3,508)	1,215,755	33,655
Total revenue	8,866,916	7,642,083	1,224,833	6,862,053	780,030
Expense:					
Operating expense	4,958,482	4,784,240	174,242	5,858,047	(1,073,807)
Depreciation	1,540,737	1,423,233	117,504	1,846,558	(423,325)
Non-operating expense	805,166	796,118	9,048	614,354	181,764
Total expense	7,304,385	7,003,591	300,794	8,318,959	(1,315,368)
Net income (loss) before capital contributions	1,562,531	638,492	924,039	(1,456,906)	2,095,398
Capital contributions	820,515	509,736	310,779	166,063	343,673
Change in net position	2,383,046	1,148,228	1,234,818	(1,290,843)	2,439,071
Net position, beginning of period	37,711,815	36,563,587	1,148,228	37,854,430	(1,290,843)
Net position, end of period	$ 40,094,861	37,711,815	2,383,046	36,563,587	1,148,228

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 6.32% or $2,383,046 to $40,094,861, due to net income of $1,562,531 from ongoing operations and $820,515 in capital contributions for the fiscal year ended June 30, 2021. For the fiscal year ended June 30, 2020, the District's net position increased 3.14% or $1,148,228 to $37,711,815, due to net income of $638,492 from ongoing operations and $509,736 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:

In 2021, the District's operating revenues increased 19.21% or $1,228,341 to $7,621,014, due 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 2020, the District's operating revenues increased 13.22% or $746,375 to $6,392,673, due primarily to increases of $433,118 in water consumption sales, $269,530 in water service charges, and $62,653 in other charges for services; which were offset by a decrease of $18,926 in standby service charges.

In 2021, the District's non-operating revenues decreased 0.28% or $3,508 to $1,245,902, due primarily to decreases of $239,705 in investment earnings and $30,933 in special assessments for debt service, which were offset by increases of $176,836 in HDMC operations revenue, $47,108 in gain on disposition of capital assets, and $43,186 in property tax revenue as compared to the prior year. In 2020, the District's non-operating revenues increased 2.77% or $33,655 to $1,249,410, due primarily to increases of $61,969 in property tax revenue, $44,173 in HDMC operations revenue, and $19,422 in special assessments for debt service; which were offset by decreases of $48,986 in investment earnings and $42,923 in other non-operating revenues.

In 2021, the District's operating expenses increased 3.64% or $174,242 to $4,958,482 due to increases of $290,104 in pumping, production, and treatment; which were offset by decreases of $43,278 in customer service, $44,523 in general and administrative expenses, and $28,061 in transmission and distribution as compared to the prior year. In 2020, the District's operating expenses decreased 18.33% or $1,073,807 to $4,784,240, due primarily to decreases of $861,968 in pumping, production, and treatment, $328,659 in general and administrative, and $151,889 in transmission and distribution; which were offset by an increase of $268,709 in customer service costs as compared to the prior year.

In 2021, the District's non-operating expenses increased 1.14% or $9,048 to $805,166, due primarily to decreases of $169,597 in Morongo Basin Pipeline expenses and $63,961 in loss on the chromium VI grant; which were offset by increases of $150,906 in HDMC project – District expense, $68,102 in waste, abuse, and misappropriation of assets, and $27,447 in debt administration charges as compared to the prior year. In 2020, the District's non-operating expenses increased 29.59% or $181,764 to $796,118, due primarily to increases of $156,487 in other non-operating expenses, $63,961 in loss on the chromium VI grant, and $35,857 in HDMC project – District expense; which were offset by decreases of $50,283 in Morongo Basin Pipeline expenses and $38,712 in debt administration 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 federal and state capital grants; which were offset by a decrease of $246,340 in capital contributions as compared to the prior year. In 2020, the District's capital contributions increased 206.95% or $343,673 to $509,736, due primarily to increases of $246,340 in miscellaneous capital contributions, $105,679 in water capacity charges, and $59,123 in wastewater capacity charges; which were offset by a decrease of $66,269 in state capital grants as compared to the prior year.

Capital Asset Administration

Changes in capital assets for 2021, were as follows:

		Balance 2020	Additions	Transfers/ Deletions	Balance 2021
Capital assets:					
Non-depreciable assets	$	1,611,186	1,947,195	(1,949,852)	1,608,529
Depreciable assets		58,398,763	1,933,022	(348,960)	59,982,825
Accumulated depreciation		(29,797,751)	(1,540,737)	348,960	(30,989,528)
Total capital assets, net	$	30,212,198	2,339,480	(1,949,852)	30,601,826

Changes in capital assets for 2020, were as follows:

		Balance 2019	Additions	Transfers/ Deletions	Balance 2020
Capital assets:					
Non-depreciable assets	$	779,426	1,701,500	(869,740)	1,611,186
Depreciable assets		57,920,003	834,369	(355,609)	58,398,763
Accumulated depreciation		(28,730,127)	(1,423,233)	355,609	(29,797,751)
Total capital assets, net	$	29,969,302	1,112,636	(869,740)	30,212,198

At the end of fiscal year 2021 and 2020, the District's capital assets, net of accumulated depreciation, amounted to $30,601,826 and $30,212,198, 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 2021, were as follows:

		Balance 2020	Additions	Payments	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
Total long-term debt	$	5,600,994	-	(273,006)	5,327,988

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

		Balance 2019	Additions	Payments	Balance 2020
Long-term debt:					
Bonds payable	$	2,859,000	-	(116,000)	2,743,000
Notes payable		3,010,000	-	(152,006)	2,857,994
Loans payable		84,870	-	(84,870)	-
Total long-term debt	$	5,953,870	-	(352,876)	5,600,994

Debt Administration, continued

In 2021 and 2020, long-term debt decreased by $273,006 and $352,876, respectively, due to regular scheduled debt payments.

Conditions Affecting Current Financial Position

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

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

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, 2021 and 2020

		2021	2020
Current assets:			
Cash and cash equivalents (note 2)	$	9,517,855	8,289,376
Cash and cash equivalents – restricted (note 2)		3,677,359	3,436,000
Accrued interest receivable		9,041	28,819
Accrued interest receivable – restricted		3,563	20,734
Accounts receivable – water sales and services, net (note 3)		1,566,070	1,372,178
Property taxes receivable		7,851	10,667
Special assessments receivable – restricted		68,538	92,216
Grants receivable (note 4)		33,087	4,442
Accounts receivable – other		127,555	89,556
Materials and supplies inventory		631,455	330,808
Prepaid expenses and other deposits		112,704	80,370
Total current assets		15,755,078	13,755,166
Non-current assets:			
Note receivable – restricted (note 5)		447,663	522,273
Capital assets – not being depreciated (note 6)		1,608,529	1,611,186
Capital assets, net – being depreciated (note 6)		28,993,297	28,601,012
Total non-current assets		31,049,489	30,734,471
Total assets		46,804,567	44,489,637
Deferred outflows of resources:			
Deferred pension outflows (note 10)		459,615	454,533
Total deferred outflows of resources	$	459,615	454,533

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Net Position, continued
June 30, 2021 and 2020

		2021	2020
Current liabilities:			
Accounts payable and accrued expenses	$	175,470	132,153
Accrued wages and related payables		82,143	79,802
Customer deposits and unearned revenue		429,014	358,948
Accrued interest payable		121,628	128,254
Long-term liabilities – due within one year:			
Compensated absences (note 7)		46,562	47,224
IDM pipeline liability (note 8)		169,597	169,597
Notes payable (note 9)		163,936	157,858
Bonds payable (note 9)		127,000	121,000
Total current liabilities		1,315,350	1,194,836
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)		139,687	141,670
Notes payable (note 9)		2,542,052	2,700,136
Bonds payable (note 9)		2,495,000	2,622,000
Net pension liability (note 10)		672,436	563,855
Total non-current liabilities		5,849,175	6,027,661
Total liabilities		7,164,525	7,222,497
Deferred inflows of resources:			
Deferred pension inflows (note 10)		4,796	9,858
Total deferred inflows of resources		4,796	9,858
Net position: (note 11)			
Net investment in capital assets		25,273,838	24,611,204
Restricted		4,197,123	4,071,223
Unrestricted		10,623,900	9,029,388
Total net position	$	40,094,861	37,711,815

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, 2021 and 2020

		2021	2020
Operating revenues:			
Water consumption sales	$	3,566,025	2,742,482
Water service charges		2,512,283	2,234,452
Standby service charges		1,217,270	1,190,640
Other charges for services		325,436	225,099
Total operating revenues		7,621,014	6,392,673
Operating expenses:			
Pumping, production, and treatment		1,584,678	1,294,574
Transmission and distribution		840,605	868,666
Customer service		727,384	770,662
General and administrative		1,805,815	1,850,338
Total operating expenses		4,958,482	4,784,240
Operating income before depreciation expense		2,662,532	1,608,433
Depreciation expense		(1,540,737)	(1,423,233)
Operating income		1,121,795	185,200
Non-operating revenue (expense):			
Property taxes		578,198	535,012
Special assessments for debt service		256,820	287,753
Investment earnings		15,403	255,108
Morongo Basin pipeline (note 8)		-	(169,597)
Interest expense		(229,946)	(235,529)
Debt administration charges		(56,822)	(29,375)
Property tax administration charge		(1,433)	(1,342)
HDMC operations revenue (note 5)		348,373	171,537
HDMC project – District expense (note 5)		(290,733)	(139,827)
Loss on Chromium VI grant (note 4)		-	(63,961)
Waste, abuse, and misappropriation of assets (notes 12 & 17)		(68,102)	-
Gain on disposition of assets		47,108	-
Other non-operating revenues (expenses), net		(158,130)	(156,487)
Total non-operating revenue, net		440,736	453,292
Net income before capital contributions		1,562,531	638,492
Capital contributions:			
Water capacity charges		494,393	171,349
Wastewater capacity charges		262,040	78,264
Federal capital grant		31,019	-
State capital grant		28,645	11,283
Capital contributions		-	246,340
Local capital grant – Mojave Water Agency		4,418	2,500
Total capital contributions		820,515	509,736
Changes in net position		2,383,046	1,148,228
Net position, beginning of year		37,711,815	36,563,587
Net position, end of year	$	40,094,861	37,711,815

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	7,459,189	6,187,338
Cash paid to employees for salaries and wages		(1,707,682)	(1,739,214)
Cash paid to vendors and suppliers for materials and services		(3,442,331)	(2,701,679)
Net cash provided by operating activities		2,309,176	1,746,445
Cash flows from non-capital financing activities:			
Property taxes		522,759	590,864
Morongo Basin pipeline		-	(169,597)
Waste and abuse		(68,102)	-
Other non-operating expenses, net		(158,130)	(156,487)
Net cash provided by non-capital financing activities		296,527	264,780
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(1,930,365)	(1,666,129)
Gain on disposition of assets		47,108	-
HDMC project expense		57,640	31,710
Capital contributions		760,851	498,453
Issuance of note receivable – Hi-Desert Medical Center		-	-
Payments received for note receivable		74,610	74,610
Proceeds from capital grants		31,019	86,604
Loan receivable from State Revolving Fund		-	84,870
Loss on chromium VI grant		-	(63,961)
Special assessments for debt service		280,498	281,382
Principal paid on long-term debt		(273,006)	(268,006)
Interest paid on long-term debt		(236,572)	(241,905)
Net cash used in capital and related financing		(1,188,217)	(1,182,372)
Cash flows from investing activities:			
Investment earnings		52,352	280,769
Net cash provided by investing activities		52,352	280,769
Net increase in cash and cash equivalents		1,469,838	1,109,622
Cash and cash equivalents, beginning of year		11,725,376	10,615,754
Cash and cash equivalents, end of year	$	13,195,214	11,725,376

Reconciliation of cash and cash equivalents to the statements of net position:			
Cash and cash equivalents	$	9,517,855	8,289,376
Cash and cash equivalents - restricted		3,677,359	3,436,000
Total cash and cash equivalents	$	13,195,214	11,725,376

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, 2021 and 2020

		2021	2020
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,121,795	185,200
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		1,540,737	1,423,233
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
(Increase) decrease in assets and deferred outflows of resources:			
Accounts receivable – water sales and services, net		(193,892)	(223,035)
Accounts receivable – other		(37,999)	(10,066)
Materials and supplies inventory		(300,647)	415,329
Prepaid expenses and other deposits		(32,334)	1,775
Deferred outflows of resources		(5,082)	(23,843)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		43,317	(184,881)
Accrued wages and related payables		2,341	25,886
Customer deposits and unearned revenue		70,066	27,766
Compensated absences		(2,645)	7,414
Net pension liability		108,581	91,809
Deferred inflows of resources		(5,062)	9,858
Total adjustments		1,187,381	1,561,245
Net cash provided by operating activities	$	2,309,176	1,746,445
Non-cash investing, capital, and financing transactions:			
Changes in fair value of funds deposited with LAIF	$	1,079	51,953

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 within the District. The District conducts general meetings of the Board of Directors twice per month, held on the first and third Wednesday 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:

Governmental Accounting Standards Board Statement No. 84

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

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 90

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

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

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

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 90, continued

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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. Uncertainty

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

3. Cash and Cash Equivalents

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

4. 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 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.

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

5. 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.

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

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

6. 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

7. 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.

8. 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.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $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. 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

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

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

10. Deferred Outflows of Resources

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

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

Pensions

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

11. 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 that is not converted is forfeited.

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.

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

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

12. Pensions, continued

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

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

13. Deferred Inflows of Resources

The statements of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and, therefore, will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

Pensions

- Deferred inflow for the net change in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred inflow for the net difference in projected and actual earnings on investments of the pension plan's fiduciary net position. This amount is amortized over a 5 year period.

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.

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

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

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 as follows:

		2021	2020
Cash and cash equivalents	$	9,517,855	8,289,376
Cash and cash equivalents – restricted		3,677,359	3,436,000
Total cash and investments	$	13,195,214	11,725,376

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

		2021	2020
Cash on hand	$	2,300	2,545
Deposits held with financial institutions		184,492	402,128
California Local Agency Investment Fund		13,008,422	10,626,907
Municipal Finance Corporation Project Fund		-	693,796
Total cash and investments	$	13,195,214	12,419,172

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

	2021	2020
California Local Agency Investment Fund	291 days	191 days

(2) Cash and Cash Equivalents, continued

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.

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.

(2) Cash and Cash Equivalents, continued

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 99% and 97% as of June 30, 2021 and 2020, 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:

		2021	2020
Accounts receivable – water sales	$	907,968	678,042
Unbilled water sales receivables		623,466	493,695
Standby charges receivables		206,984	312,012
Property liens		138,311	106,683
Allowance for doubtful accounts		(310,659)	(218,254)
Total accounts receivable, net	$	1,566,070	1,372,178

(4) Grants Receivable

Integrated Regional Water Management Plan

The balance at June 30 consists of the following:

		2021	2020
Prop 1 DWR grant – project	$	27,213	-
Prop 1 DWR grant – retention		5,874	4,442
Total grants receivable	$	33,087	4,442

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. The District is required to wait until all projects associated with the grant agreement are completed in order to apply for release of retention held by the State.

Chromium VI Remediation Project

As of June 30, 2020, the State was no longer funding the costs associated with planning the District's Chromium VI Remediation Project. As a result, the District wrote-off the remainder of the grant receivable, or $63,961, and recorded a loss on Chromium VI grant.

(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, 2021 and 2020, the remaining principal balance was $447,663 and $522,273, respectively. At June 30, 2021 and 2020, accrued interest receivable on the note was $2,553 and $10,777, respectively, and is included as part of the accrued interest receivable balance in the statements of net position.

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. For the fiscal years ended June 30, 2021 and 2020, the District received $348,373 and $171,537, respectively, in reimbursement revenue from HDMC. For the fiscal years ended June 30, 2021 and 2020, the District incurred $290,733 and $139,827, respectively, in reimbursable costs towards the project.

(6) Capital Assets

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

	Balance 2020	Additions/ Transfers	Deletions/ Transfers	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
Total depreciable assets	58,398,763	1,933,022	(348,960)	59,982,825
Accumulated depreciation:				
Transmission and distribution system	(24,669,424)	(864,457)	187,730	(25,346,151)
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)	(123,894)	-	(1,415,610)
Total accumulated depreciation	(29,797,751)	(1,540,737)	348,960	(30,989,528)
Total depreciable assets, net	28,601,012	392,285	-	28,993,297
Total capital assets, net	$ 30,212,198	2,339,480	(1,949,852)	30,601,826

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.

(6) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2020, were as follows:

	Balance 2019	Additions/	Deletions/ Transfers	Balance 2020
Non-depreciable assets:				
Land and land rights	$ 516,019	35,000	-	551,019
Construction-in-process	263,407	1,666,500	(869,740)	1,060,167
Total non-depreciable assets	779,426	1,701,500	(869,740)	1,611,186
Depreciable assets:				
Transmission and distribution system	41,976,627	282,605	(343,806)	41,915,426
Recharge facilities	9,108,029	-	-	9,108,029
Structures and improvements	1,343,365	-	-	1,343,365
Vehicles and large equipment	3,161,548	382,157	-	3,543,705
Office furniture and equipment	1,049,602	117,438	(11,803)	1,155,237
Wastewater system	22,419	-	-	22,419
Studies and reports	1,258,413	52,169	-	1,310,582
Total depreciable assets	57,920,003	834,369	(355,609)	58,398,763
Accumulated depreciation:				
Transmission and distribution system	(24,065,922)	(904,745)	301,243	(24,669,424)
Recharge facilities	(835,565)	(182,169)	-	(1,017,734)
Structures and improvements	(532,686)	(44,815)	6,582	(570,919)
Vehicles and large equipment	(1,062,014)	(251,806)	-	(1,313,820)
Office furniture and equipment	(953,108)	(6,395)	47,784	(911,719)
Wastewater system	(22,419)	-	-	(22,419)
Studies and reports	(1,258,413)	(33,303)	-	(1,291,716)
Total accumulated depreciation	(28,730,127)	(1,423,233)	355,609	(29,797,751)
Total depreciable assets, net	29,189,876	(588,864)	-	28,601,012
Total capital assets, net	$ 29,969,302	1,112,636	(869,740)	30,212,198

Major depreciable capital asset additions during the fiscal year ended 2020, include upgrades and extensions of the District's water transmission and distribution systems of $282,605, purchases of vehicles and large equipment of $382,157, purchases of office furniture and equipment of $117,438, and capital improvement plans related to surveys and plans of $52,169. During the year, the District's deletions included: transmission and distribution replacements of $343,806 and office furniture and equipment disposals of $11,803.

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, 2021 and 2020, the balance of construction-in-process was $971,707 and $1,060,167, respectively.

(6) Capital Assets, continued

Construction-in-process consisted of the following projects:

Project Description		2021	2020
Update wastewater treatment strategy	$	-	67,997
Tilford Way Pipeline project		254,628	170,330
Well 14 – 4 log treatment		580,959	-
Saddleback design and install		-	708,639
Various other minor projects < $50,000		136,120	113,201
Total construction-in-process	$	971,707	1,060,167

(7) Compensated Absences

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

Changes to compensated absences for 2020 were as follows:

	Balance 2019	Earned	Taken	Balance 2020	Due within one year	Due in more than one year
$	181,480	293,520	(286,106)	188,894	47,224	141,670

(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 responsible 27% or $169,597. The District recorded a liability accordingly.

(9) Long-Term Debt

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

		Balance 2020	Additions	Payments	Balance 2021	Current Portion
Long-term debt:						
Bonds payable:						
1996 Bond	$	2,743,000	-	(121,000)	2,622,000	127,000
Note payable:						
Installment Sale #18-012		2,857,994	-	(152,006)	2,705,988	163,936
Total long-term debt	$	5,600,994	-	(273,006)	5,327,988	290,936

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

		Balance 2019	Additions	Payments	Balance 2020	Current Portion
Long-term debt:						
Bonds payable:						
1996 Bond	$	2,859,000	-	(116,000)	2,743,000	121,000
Note payable:						
Installment Sale #18-012		3,010,000	-	(152,006)	2,857,994	157,858
Loans payable:						
State Revolving Fund Loan		84,870	-	(84,870)	-	-
Total long-term debt	$	5,953,870	-	(352,876)	5,600,994	278,858

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 the special assessments are collected and paid by the District. The District is not obligated to, but may at 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
2022	$	127,000	115,133	242,133
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	241,862
2027-2031		861,000	378,786	1,239,786
2032-2036		1,069,000	171,608	1,240,608
Total		2,622,000	1,065,149	3,688,786
Current		(127,000)		
Long-term	$	2,495,000		

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
2022	$	163,936	103,955	267,891
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
2027-2031		1,069,323	270,312	1,339,635
2032-2034		751,393	58,129	809,522
Total		2,705,988	782,624	3,488,612
Current		(163,936)		
Long-term	$	2,542,052		

(9) Long-Term Debt, continued

Drinking Water State Revolving Fund Loan

On December 17, 2015, the District entered into a grant funding agreement with the California State Water Resources Control Board ("State") for a planning loan and grant under the California Water State Revolving Fund (SRF) pursuant to Chapter 4.5, Part 12 of Division 104 of the California Health and Safety Code (State Act) to be used for purposes of the Chromium VI Remediation Project.

The project under the funding agreement includes planning regarding the possible implementation of the Chromium VI Remediation Project. The agreement provides for a total funding of $2,016,000. The amount consists of State Revolving Fund (SRF) in the amount of $1,516,000 and a grant in the amount of $500,000. The SRF program is a federal and state partnership that provides communities a permanent, independent source of low-cost financing for a wide range of water quality infrastructure projects. The State Revolving Fund has an interest rate of zero percent with a loan repayment term of 10 years.

As of June 30, 2020, the State was no longer funding the costs associated with planning the District’s Chromium VI Remediation Project and the District paid the balance of the loan in full.

(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 2.5% 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.

(10) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The Plans' provision and benefits in effect as of June 30, 2021 and 2020, 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%
2021:		
Required employee contribution rates	6.908%	7.250%
Required employer contribution rates	11.746%	7.874%
2020:		
Required employee contribution rates	6.906%	7.250%
Required employer contribution rates	10.868%	7.072%

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:

	2021	2020
Contributions – employer	$ 238,632	226,625

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:

	2021	2020
Proportionate share of net pension liability	$ 672,436	563,855

(10) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

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, 2018 (measurement dat	0.00490%
Increase in proportion	0.00060%
Proportion – June 30, 2019 (measurement dat	0.00550%
Increase in proportion	0.00068%
Proportion – June 30, 2020 (measurement dat	0.00618%

For the fiscal years ended June 30, 2021 and 2020, the District recognized pension expense of $337,069 and $304,448, respectively.

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:

	2021		2020	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 238,632	-	226,625	-
Differences between actual and expected experience	34,653	-	36,129	-
Changes in assumptions	-	(4,796)	17,356	-
Net difference between projected and actual earnings on plan investments	19,976	-	-	(9,858)
Differences between actual contribution and proportionate share of contribution	75,889	-	70,483	-
Net adjustment due to differences in proportions of net pension liability	90,465	-	103,940	-
Total	$ 459,615	(4,796)	454,533	(9,858)

(10) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2021 and 2020, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement dates of $238,632 and $226,625, respectively, will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2022 and 2021, respectively.

As of June 30, 2021, 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
2022	$ 72,001
2023	82,628
2024	47,863
2025	13,695

Actuarial Assumptions

The total pension liabilities in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
Actuarial cost method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Period upon which actuarial experience survey assumptions were based	1997 – 2015
Post retirement benefit increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power appli

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

(10) Defined Benefit Pension Plan, continued

Discount Rate

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

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

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

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%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Infrastructure and Forestland	0.0%	0.00%	0.00%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(10) Defined Benefit Pension Plan, continued

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, 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

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

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 1,096,987	563,855	123,793

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 43 for the Required Supplementary Information.

Payable to the Pension Plan

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

(11) Net Position

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

		2021	2020
Net investment in capital assets:			
Capital assets, not being depreciated	$	1,608,529	1,611,186
Depreciable capital assets, net		28,993,297	28,601,012
Current:			
Bonds payable		(127,000)	(121,000)
Notes payable		(163,936)	(157,858)
Non-current:			
Bonds payable		(2,495,000)	(2,622,000)
Notes payable		(2,542,052)	(2,700,136)
Total net investment in capital assets		25,273,838	24,611,204
Restricted:			
Cash and cash equivalents – restricted		3,677,359	3,436,000
Accrued interest receivable – restricted		3,563	20,734
Special assessments receivable – restricted		68,538	92,216
Note receivable – Hi-Desert Medical Center, restricted		447,663	522,273
Total restricted net position		4,197,123	4,071,223
Unrestricted:		10,623,900	9,029,388
Total net position	$	40,094,861	37,711,815

(12) Waste, Abuse, and Misappropriation of Assets

In fiscal year 2021, certain purchases of equipment were identified as unusual transactions. Upon investigation, it was discovered that approximately $68,000 was misappropriated as of June 30, 2021, and the misappropriation continued through December 2021, the onset of the investigation. (See subsequent events note 17). The District has initiated a criminal investigation with local law enforcement. In addition, the District plans to recover its loss.

(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, 2021 and 2020, the market value of all plan assets held in trust by MissionSquare was $1,038,638 and $731,555, respectively.

(13) Deferred Compensation Savings Plan, continued

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the 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 annual revenue – the District's retention is $25,000 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 Hartford.
- Property loss, including boiler and machinery coverage is paid at the replacement cost for buildings, fixed equipment, and personal property of $19,948,845 subject to a $2,500 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 $1,000 deductible per occurrence. ACWA JPIA has purchased excess coverage up to $500 million.
- 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, 2021, 2020, and 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2021, 2020, and 2019.

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

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

Governmental Accounting Standards Board Statement No. 87

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

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

Governmental Accounting Standards Board Statement No. 89

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

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

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

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

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

Governmental Accounting Standards Board Statement No. 91

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

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

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

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

Governmental Accounting Standards Board Statement No. 92

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

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

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

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR.

This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

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

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.

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

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.

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.

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

Governmental Accounting Standards Board Statement No. 98

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

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

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

(16) 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.

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.

(17) Subsequent Events

In fiscal year 2021, the District's assets were misappropriated (see note 12). On December 22, 2021, the District launched an investigation that revealed approximately $139,000 of additional misappropriated assets from July 1, 2021 through the onset of the investigation. The District has initiated a criminal investigation with local law enforcement. In addition, the District plans to recover the loss.

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of June 29, 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, 2021
Last Ten Years*

		June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Fiscal year ended		June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date		June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability		0.00618%	0.00550%	0.00490%	0.00495%	0.00439%	0.00394%	0.00463%
District's proportionate share of the net pension liability	$	672,436	563,855	472,046	490,750	379,802	270,679	288,403
District's covered payroll	$	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		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		84.95%	85.77%	85.56%	82.83%	83.60%	87.09%	83.03%

Notes To Schedule:

There were no changes in benefits.

Changes in Assumptions:

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

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

The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

There were no changes in assumptions.

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

The discount rate was reduced from 7.65% to 7.15%

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

The inflation rate was reduced from 2.75% to 2.50%

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

There were no changes in assumptions.

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

There were no changes in assumptions.

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

Joshua Basin Water District
Schedules of Pension Plan Contributions
As of June 30, 2021
Last Ten Years*

Fiscal year ended		June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially determined contribution	$	243,362	189,373	170,464	144,890	145,219	143,957	156,268
Contributions in relation to the actuarially determined contribution		(243,362)	(189,373)	(170,464)	(144,890)	(145,219)	(143,957)	(156,268)
Contribution deficiency (excess)	$	-	-	-	-	-	-	-
District's covered payroll	$	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		12.48%	10.86%	11.62%	9.91%	10.80%	10.40%	11.28%

Notes To Schedule:

Valuation date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Methods and assumptions used to determine contribution rates:							
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	15 Year Smoothed Market Method
Inflation	2.50%	2.63%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.00% (3)	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)	(5)

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

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

Report on Internal Controls and Compliance

Fedak & Brown LLP
Certified Public Accountants

Christopher J. Brown, CPA, CGMA
Jonathan Abadesco, CPA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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 Joshua Basin Water District (District) as of and for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated June 29, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001, 2021-002, 2021-003, and 2021-004 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 determination of financial statement amounts. 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*.

District's Responses to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The District's responses were not subjected to the 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
June 29, 2022

Finding Number	Finding and Recommendation
Material Weakness	
2021-001	Review of Financial Transactions
Criteria	The Board of Directors sets goals concurrent with the mission of the District and oversees management to ensure that a plan of action is executed to meet these goals. In executing any plan of action, management follows board approved policies and procedures and reports the results to the Board of Directors. The Board of Directors should evaluate the results as a means of monitoring management's activities. Quality policies and procedures with proper oversight by the Board of Directors will result in an efficient and effective outcome while safeguarding the District's assets.
Condition	During our audit, we noted unusual credit card purchases which were determined to be misappropriation of the District's assets.
Cause	The District's financial transactions and financial results were not sufficiently evaluated with a questioning mind.
Effect	During fiscal year 2021 through December 2021, the District's assets were misappropriated.
Recommendation	The Board of Directors should review the District's finances and evaluate its reasonableness. Such review can include the review of monthly budget-to-actual reports, periodic check registers, or invoices. Unusual transactions should be investigated.
View of Responsible Officials	Management agrees with the audit finding. The District will review and amend its existing policies and procedures to ensure effective internal controls. The District will consider establishing a more direct line of communication between management, staff, and the Board of Directors, to ensure timely communication of concerning activity. In addition, the Board of Directors will implement internal controls that will help detect and correct fraudulent activities in a timely manner.

Finding Number	**Finding and Recommendation**
Material Weakness	
2021-002	Procurement Policy
Criteria	A procurement policy reduces uncertainty when purchasing products and services. Moreover, a procurement policy prevents conflicts of interest and fraud that may arise. A good procurement policy should define the objective of the policy, vendor setup and onboarding process, contract signing authority, purchasing authority thresholds, delegation of authority, competitive bidding process, and forbidden purchases, at a minimum.
Condition	During our audit, we noted unusual credit card purchases which were determined to be misappropriation of the District's assets.
Cause	The District does not maintain approved policies and procedures for procuring goods and services.
Effect	During fiscal year 2021 through December 2021, the District's assets were misappropriated.
Recommendation	We recommend that the District develop written policies and procedures for procuring goods and services. The policies and procedures should be reviewed periodically to adapt to changing technology, internal controls, and the District's needs.
View of Responsible Officials	Management agrees with the audit finding. The District will abandon use of its informal policy and work to develop a formal, Board-approved written policy and procedures.

Finding Number	**Finding and Recommendation**
Material Weakness	
2021-003	Credit Card Policies and Procedures
Criteria	A credit card policy describes the rules and responsibilities of the holder of the District's credit card. Before a credit card is issued, the District should obtain a signed policy that an employee agrees to the rules and responsibilities that are attached to the District's credit card. The maximum credit limit should not be excessive and should be issued to employees who travel frequently in the course of his/her duties. Finally, the user of the credit card should submit itemized credit card receipts for each transaction which are reconciled to credit card statements.
Condition	During our audit, we noted unusual credit card purchases which were determined to be misappropriation of the District's assets.
Cause	While the District maintains a credit card policy, the District did not obtain the most recent signed credit card policy from the General Manager. In addition, the District's credit card had an excessive maximum limit which enabled the purchase of restricted goods. Finally, the General Manager failed to submit invoices concurrent with the District's credit card policy.
Effect	During fiscal year 2021 through December 2021, the District's assets were misappropriated.
Recommendation	We recommend that the District review its credit card issuance and acknowledgment forms to ensure that signed copies have been obtained from all employees that have custody of District issued credit cards. In addition, the District should take steps to reduce the maximum credit limit. District employees should strictly follow the rules and responsibilities of having a District credit card.
View of Responsible Officials	Management agrees with the audit finding. The District will review all existing credit card issuance and acknowledgment forms and ensuring that they are signed. The District will strive to develop a credit card policy that better interfaces with the District's newly developed procurement policy. The District will continue to require monthly reconciliations from employees, now requiring further documentation of the propriety and necessity of all charges. The District will consider reviewing the necessity for the number of issued cards, the limits, and controls over how each of the cards are monitored by position. The District is also considering the use of expense reimbursements as an alternative to credit cards.

Finding Number	Finding and Recommendation
Material Weakness	
2021-004	Whistleblower Policy
Criteria	A whistleblower policy encourages employees to report information on illegal activities, violations of adopted policies, and fraud. In addition, a whistleblower policy protects the reporting employee from retaliation and identifies staff, board members, or 3rd parties to whom such information can be reported.
Condition	During our audit, we noted unusual credit card purchases which were determined to be misappropriation of the District's assets.
Cause	While the District maintains a whistleblower policy, the policy is not complete as it lacked the means to communicate anonymous tips such as a phone number.
Effect	During fiscal year 2021 through December 2021, the District's assets were misappropriated.
Recommendation	We recommend that the District adopt a formal whistleblower policy that sets forth the process to communicate known or suspected fraud. The policy must be displayed in a conspicuous place where it can be viewed by all concerned parties.
View of Responsible Officials	Management agrees with the audit finding. The District will consider how to best amend its formal whistleblower policy. The policy will be amended to set forth the process and clearly describe 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.