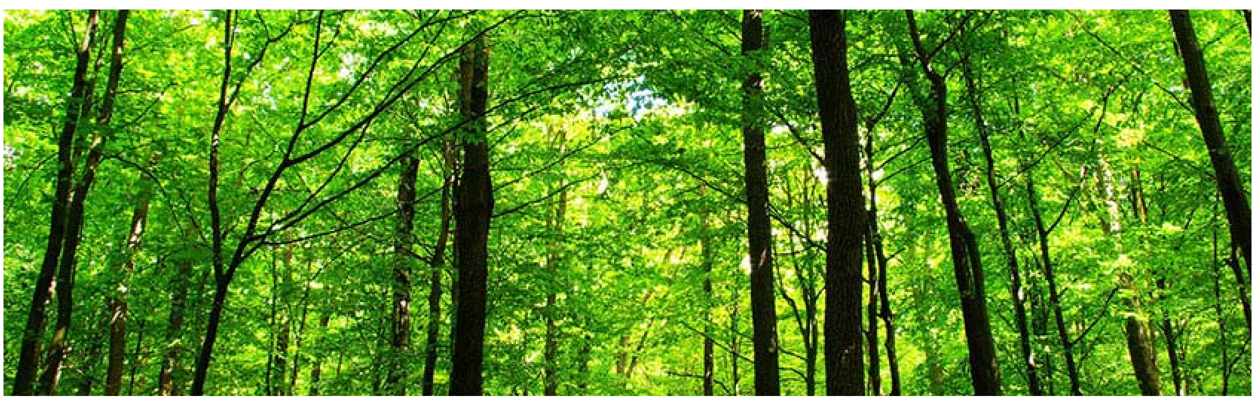
High Valleys Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019



47781 Twin Pines Road, Banning, California 92220

High Valleys Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019

High Valleys Water District

Board of Directors as of June 30, 2020

Name	Title	Elected/ Appointed	Current Term
Ernest Wright	President	Elected	2017 - 2021
Mona Van Sickle	Vice-President	Appointed	2020 - 2024
Samuel Hughes	Director	Appointed	2020 - 2024
Lori Cornell	Director	Appointed	2020 - 2021
Luella Thornton	Director	Appointed	2020 - 2024

High Valleys Water District
Stan Houghton, General Manager
47781 Twin Pines Road
Banning, California 92220
www.highvalleyswater.com
951.849.2612

High Valleys Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019

High Valleys Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019

Table of Contents

Financial Section

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
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
High Valleys Water District
Banning, California

Report on the Financial Statements

We have audited the accompanying financial statements of the High Valleys Water District (District) as of and for the years ended June 30, 2020 and 2019, 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the High Valleys Water District, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, a required supplementary information on pages 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020, 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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 16, 2020

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the High Valleys Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position decreased 0.16%, or $1,662 to $1,011,009, in fiscal year 2020. In 2019, the District's net position increased 8.85%, or $82,367 to $1,012,671.
- The District's total revenues decreased 3.03% or $18,087, in fiscal year 2020. In 2019, the District's total revenues increased 5.07% or $28,838.
- The District's total expenses increased 12.80%, or $65,942, in fiscal year 2020. In 2019, the District's total expenses increased 0.82%, or $4,183.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the 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 District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water to customers of the District are financed primarily through user charges.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the revenues 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 sustainability and credit worthiness. The final required financial statements is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net change in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Financial Analysis of the District, continued

These two statements report the District's net position and changes in them. One can think of the District's net position (the difference between assets and deferred outflows of resources, and 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 is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 28.

Statements of Net Position

Condensed Statements of Net Position

		2020	2019	Change	2018	Change
Assets:						
Current assets	$	697,207	677,353	19,854	547,820	129,533
Capital assets, net		395,873	408,250	(12,377)	430,558	(22,308)
Total assets		1,093,080	1,085,603	7,477	978,378	107,225
Liabilities:						
Current liabilities		69,760	57,033	12,727	46,891	10,142
Non-current liabilities		12,311	15,899	(3,588)	1,183	14,716
Total liabilities		82,071	72,932	9,139	48,074	24,858
Net position:						
Net investment in capital assets		379,971	388,941	(8,970)	422,906	(33,965)
Restricted		29,621	29,621	-	23,241	6,380
Unrestricted		601,417	594,109	7,308	484,157	109,952
Total net position	$	1,011,009	1,012,671	(1,662)	930,304	82,367

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 and deferred outflows of resources exceeded liabilities and inflows of resources by $1,011,009 and $1,012,671 as of June 30, 2020 and 2019, respectively.

A portion of the District's net position (37.58% and 38.41% as of June 30, 2020 and 2019, 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. See note 7 for further information.

Statements of Net Position, continued

At the end of fiscal years 2020 and 2019, the District showed a positive balance in its unrestricted net position of $601,417 and $594,109, respectively. See note 7 for the amount of spendable net position that may be utilized in future years.

Statements of Revenues, Expenses, and Changes in Net Position

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

	2020	2019	Change	2018	Change
Revenues:					
Operating revenues	$ 236,161	205,337	30,824	208,595	(3,258)
Non-operating revenues	343,138	392,049	(48,911)	359,953	32,096
Total revenues	579,299	597,386	(18,087)	568,548	28,838
Expenses:					
Operating expenses	531,889	474,222	57,667	470,710	3,512
Non-operating expenses	925	1,094	(169)	1,366	(272)
Depreciation expense	48,147	39,703	8,444	38,760	943
Total expenses	580,961	515,019	65,942	510,836	4,183
Changes in net position	(1,662)	82,367	(84,029)	57,712	24,655
Net position, beginning of year	1,012,671	930,304	82,367	872,592	57,712
Net position, end of year	$ 1,011,009	1,012,671	(1,662)	930,304	82,367

The Statements of Revenues, Expenses, and Changes of Net Position show how the District's net position changed during the fiscal years. In the case of the District, net position decreased by $1,662 for the fiscal year ended June 30, 2020 and increased $82,367 for the fiscal year ended June 30, 2019.

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

In 2020, the District's total revenues decreased by 3.03%, or $18,087. The District's operating revenue increased by $30,824 primarily due to an increase in water sales of $30,038. Non-operating revenues decreased by $48,911 primarily due to decreases in grants of $36,157 and insurance proceeds of $15,458.

In 2019, the District's total revenues increased by 5.07%, or $28,838. The District's operating revenue decreased by $3,258 primarily due to a decrease in water sales of $2,973. Non-operating revenues increased by $32,096 primarily due to increases in grants of $36,157 and insurance proceeds of $15,458; which were offset by a decrease in property taxes of $22,161.

In 2020, the District's total expenses increased by 12.80%, or $65,942. The District's operating expenses increased by $57,667 primarily due to increases in system maintenance of $15,452, general and administrative expense of $13,854, maintenance salaries of $12,113, and water purchase of $11,187. Non-operating expenses decreased by $169.

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

In 2019 the District's total expenses increased by 0.82%, or $4,183. The District's operating expenses increased by $3,512 primarily due to increases in water purchase of $5,398 and system maintenance of $3,468; which were offset by a decrease in general and administrative expense of $4,931. Non-operating expenses decreased by $272.

Capital Asset Administration

At the end of fiscal years 2020 and 2019, the District's investment in capital assets (net of accumulated depreciation) amounted to $395,873 and $408,250, respectively. This investment in capital assets includes land, transmission and distribution systems, buildings and structures, equipment, and vehicles. Major capital assets additions during the year include additions to the District's transmission and distribution systems.

The change in capital asset amounts for 2020 were as follows:

		Balance 2019	Additions	Transfers/ Disposals	Balance 2020
Capital assets:					
Non-depreciable capital assets	$	27,483	-	-	27,483
Depreciable capital assets		1,779,782	35,770	-	1,815,552
Accumulated depreciation		(1,399,015)	(48,147)	-	(1,447,162)
Total capital assets, net	$	408,250	(12,377)	-	395,873

The change in capital asset amounts for 2019 were as follows:

		Balance 2018	Additions	Transfers/ Disposals	Balance 2019
Capital assets:					
Non-depreciable capital assets	$	27,483	-	-	27,483
Depreciable capital assets		1,781,718	32,254	(34,190)	1,779,782
Accumulated depreciation		(1,378,643)	(39,703)	19,331	(1,399,015)
Total capital assets, net	$	430,558	(7,449)	(14,859)	408,250

See note 4 for further discussion.

Debt Administration

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

		Balance 2019	Additions	Payments	Balance 2020
Long-term debt:					
Loan payable	$	19,309	-	(3,407)	15,902
Total long-term debt	$	19,309	-	(3,407)	15,902

Debt Administration, continued

The change in long-term debt amounts for 2019 were as follows:

		Balance 2018	Additions	Payments	Balance 2019
Long-term debt:					
Capital lease payable	$	5,773	-	(5,773)	-
Loan payable		1,879	22,253	(4,823)	19,309
Total long-term debt	$	7,652	22,253	(10,596)	19,309

See note 6 for further discussion

Conditions Affecting Current Financial Position

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

Management is unaware of any other conditions at June 30, 2020, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Stan Houghton, General Manager of the High Valleys Water District, 47781 Twin Pines Road, Banning, California, 92220.

< Page Intentionally Left Blank >

Basic Financial Statements

High Valleys Water District
Statements of Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Current assets:			
Cash and cash equivalents (note 2)	$	575,587	536,695
Cash and cash equivalents – restricted (note 2)		29,621	29,621
Accounts receivable, net (note 3)		24,542	22,554
Accounts receivable – property taxes		60,554	67,932
Prepaid expenses		6,903	20,551
Total current assets		697,207	677,353
Non-current assets:			
Non-depreciable capital assets (note 4)		27,483	27,483
Depreciable capital assets, net (note 4)		368,390	380,767
Total non-current assets		395,873	408,250
Total assets		1,093,080	1,085,603
Current liabilities:			
Accounts payable and accrued expenses		25,833	20,437
Accrued wages and relates payables		4,684	5,216
Unearned revenue		25,252	20,148
Long-term liabilities – due within one year:			
Compensated absences (note 5)		10,400	7,822
Loan payable (note 6)		3,591	3,410
Total current liabilities		69,760	57,033
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Loan payable (note 6)		12,311	15,899
Total non-current liabilities		12,311	15,899
Total liabilities		82,071	72,932
Net position: (note 7)			
Net investment in capital assets		379,971	388,941
Restricted		29,621	29,621
Unrestricted		601,417	594,109
Total net position	$	1,011,009	1,012,671

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Operating revenues:			
Water consumption sales	$	218,867	188,829
Water services		13,420	12,340
Other charges		3,874	4,168
Total operating revenues		236,161	205,337
Operating expenses:			
Water purchases		103,753	92,566
Pumping		36,113	31,052
System maintenance		57,842	42,390
Maintenance salaries		112,921	100,808
General and administrative		221,260	207,406
Total operating expenses		531,889	474,222
Operating loss before depreciation		(295,728)	(268,885)
Depreciation expense		(48,147)	(39,703)
Operating loss		(343,875)	(308,588)
Non-operating revenues(expense):			
Property taxes		343,105	337,752
Investment earnings		33	40
Interest expense		(925)	(1,094)
Insurance proceeds		-	15,458
Grant revenue		-	36,157
Gains on disposal of capital assets		-	2,642
Total non-operating revenues, net		342,213	390,955
Changes in net position		(1,662)	82,367
Net position, beginning of year		1,012,671	930,304
Net position, end of year	$	1,011,009	1,012,671

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Cash receipts from customers	$	239,277	211,105
Cash paid to employees for salaries and wages		(168,409)	(170,751)
Cash paid to vendors and suppliers		(342,390)	(304,699)
Net cash used in operating activities		(271,522)	(264,345)
Cash flows from non-capital financing activities:			
Proceeds from disposal of capital assets		-	17,501
Purchase of capital assets		(35,770)	(32,254)
Proceeds from insurance claims		-	15,458
Proceeds from operating grant		-	36,157
Proceeds from property taxes		350,483	336,453
Net cash provided by non-capital financing activities		314,713	373,315
Cash flows from capital and related financing activities:			
Proceeds for loan		-	22,253
Principal paid on long-term debt		(3,407)	(10,596)
Interest paid on long-term debt		(925)	(1,094)
Net cash provided by(used in) capital and related financing activities		(4,332)	10,563
Cash flows from investing activities:			
Investment earnings		33	40
Net cash provided by investing activities		33	40
Net increase in cash and cash equivalents		38,892	119,573
Cash and cash equivalent, beginning of year		566,316	446,743
Cash and cash equivalent, end of year	$	605,208	566,316

		2020	2019
Reconciliation of cash and cash equivalents to the statements of net position:			
Cash and cash equivalents	$	575,587	536,695
Cash and cash equivalents – restricted		29,621	29,621
Total cash and cash equivalents	$	605,208	566,316

Continued on next page

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(343,875)	(308,588)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		48,147	39,703
Changes in assets and liabilities:			
(Increase)decrease in assets:			
Accounts receivable		(1,988)	(4,864)
Prepaid expenses		13,648	(3,797)
Increase(decrease) in liabilities:			
Accounts payable and accrued expenses		5,396	2,865
Accrued wages and relates payables		(532)	651
Unearned revenue		5,104	10,632
Compensated absences		2,578	(947)
Total adjustments		72,353	44,243
Net cash used in operating activities	$	(271,522)	(264,345)

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 High Valleys Water District (District) was formed in 1969 by a resolution adopted by the Board of Directors under the provision of the State of California Water Code Section 34000. The District was created for the purpose of importing and providing water service to approximately 227 connections within the District's service area. The District is located in the mountainous area south of Banning, between the cities of Riverside and Palm Springs, California. The Board of Directors is generally elected by landowners within the District who serve staggered four-year terms. Landowners within the District may cast one vote for each dollar's worth of land to which they hold title.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water services to its customers on a continuing basis be financed or recovered primarily through user charges (water and service fees). 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 values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water service charges based on cycle billings performed monthly. The District accrues revenues with respect to water service sold but not billed at the end of a fiscal period.

C. Financial Reporting

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

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

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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

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

1. Use of Estimates

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

2. Uncertainty

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

3. Cash and Cash Equivalents

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

4. Investments and Investment Policy

The District has directed the Office Administrator to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income and 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

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

6. Property Taxes and Assessments

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and by such financing, the District receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

(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, continued

Property taxes receivable at year-end are related to property taxes collected by the County of Riverside, 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. Prepaid Expenses

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

8. Capital Assets

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

• Transmission and distribution	3 to 42 years
• Source of supply	15 to 35 years
• Tools and equipment	5 to 7 years
• Building and structures	15 to 35 years
• Water meters	35 years
• Office furniture and equipment	7 years
• Vehicles	3 to 7 years

9. Unearned Revenues

Unearned revenues consist of customer and developer deposits held at year-end.

10. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation according to the number of years of service with the District and sick leave at six days per year upon the completion of the initial period. The liability for vested vacation and sick leave is recorded as an expense when earned and vested, in accordance with District policy.

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

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

11. Net Position

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

- *Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against 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 the 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.

12. Connection Fees

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

13. Water Service Charges

The District recognizes water service charges based on cycle billings rendered to the customers on a monthly basis.

14. Budgetary Policies

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

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

		2020	2019
Cash and cash equivalents	$	575,587	536,695
Cash and cash equivalents – restricted		29,621	29,621
Total	$	605,208	566,316

(2) Cash and Cash Equivalents, continued

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

		2020	2019
Cash on hand	$	236	236
Deposits in financial institutions		604,972	566,080
Total	$	605,208	566,316

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
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

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 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, other than the following provision:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the bank balances, up to $250,000, as of June 30, 2020 and 2019, 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.

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. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

(2) Cash and Cash Equivalents, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District can manage 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 for cash flow requirements and liquidity needed for operations.

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of total District investments as of June 30, 2020 and 2019.

(3) Accounts Receivable

The balance of accounts receivable as of June 30, consists of the following:

		2020	2019
Accounts receivable – water sales	$	27,694	25,481
Allowance for doubtful accounts		(3,152)	(2,928)
	$	24,542	22,554

(4) Capital Assets

The change in capital assets for 2020, was as follows:

	Balance 2019	Additions/ Transfers	Disposals/ Transfers	Balance 2020
Non-depreciable assets:				
Land	$ 27,483	-	-	27,483
Total non-depreciable assets	27,483	-	-	27,483
Depreciable assets:				
Transmission and distribution	1,363,370	35,770	-	1,399,140
Source of supply	90,654	-	-	90,654
Tools and equipment	130,320	-	-	130,320
Buildings and structures	79,336	-	-	79,336
Water meters	58,835	-	-	58,835
Office furniture and equipment	357	-	-	357
Vehicles	56,910	-	-	56,910
Total depreciable assets	1,779,782	35,770	-	1,815,552
Accumulated depreciation:				
Transmission and distribution	(1,053,945)	(30,403)	-	(1,084,348)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(115,792)	(10,254)	-	(126,046)
Buildings and structures	(50,169)	(2,882)	-	(53,051)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(29,263)	(4,608)	-	(33,871)
Total accumulated depreciation	(1,399,015)	(48,147)	-	(1,447,162)
Total depreciable assets, net	380,767	(12,377)	-	368,390
Total capital assets, net	$ 408,250			395,873

Major capital asset additions during the year include improvements to the District's transmission and distribution systems.

(4) Capital Assets, continued

The change in capital assets for 2019, were as follows:

	Balance 2018	Additions/ Transfers	Disposals/ Transfers	Balance 2019
Non-depreciable assets:				
Land	$ 27,483	-	-	27,483
Total non-depreciable assets	27,483	-	-	27,483
Depreciable assets:				
Transmission and distribution	1,363,370	-	-	1,363,370
Source of supply	90,654	-	-	90,654
Tools and equipment	130,320	-	-	130,320
Buildings and structures	79,336	-	-	79,336
Water meters	58,835	-	-	58,835
Office furniture and equipment	357	-	-	357
Vehicles	58,846	32,254	(34,190)	56,910
Total depreciable assets	1,781,718	32,254	(34,190)	1,779,782
Accumulated depreciation:				
Transmission and distribution	(1,033,205)	(20,740)	-	(1,053,945)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(105,538)	(10,254)	-	(115,792)
Buildings and structures	(47,287)	(2,882)	-	(50,169)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(42,767)	(5,827)	19,331	(29,263)
Total accumulated depreciation	(1,378,643)	(39,703)	19,331	(1,399,015)
Total depreciable assets, net	403,075	(7,449)	(14,859)	380,767
Total capital assets, net	$ 430,558			408,250

Major capital asset additions during the year include the purchase of a vehicle.

(5) Compensated Absences

The change in compensated absences as of June 30, 2020, was as follows:

Balance 2019	Additions	Deletions	Balance 2020
$ 7,822	16,918	(14,340)	10,400

(5) Compensated Absences, continued

The change in compensated absences as of June 30 2019, was as follows:

Balance 2018	Additions	Deletions	Balance 2019
$ 8,769	10,377	(11,324)	7,822

(6) Long-Term Debt

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

	Balance 2019	Additions	Principal Payments	Balance 2020
Loans payable:				
GM Financial	$ 19,309	-	(3,407)	15,902
Total loans payable	19,309	-	(3,407)	15,902
Total long-term debt	19,309	-	(3,407)	15,902
Less current portion	(7,652)			(3,591)
Total non-current portion	$ 11,657			12,311

Changes in long-term debt in 2019, were as follows:

	Balance 2018	Additions	Principal Payments	Balance 2019
Capital lease payable	$ 5,773	-	(5,773)	-
Loans payable:				
CNH Industrial Capital	1,879	-	(1,879)	-
GM Financial	-	22,253	(2,944)	19,309
Total loans payable	1,879	22,253	(4,823)	19,309
Total long-term debt	7,652	22,253	(10,596)	19,309
Less current portion	(7,652)			(3,410)
Total non-current portion	$ -			15,899

Capital Lease Payable

In October 2014, the District entered into a capital lease contract with the Ford Motor Credit Company to lease a vehicle. Monthly lease payments of $398 began in November 2014. The total lease obligation was $21,195, with an interest rate of 4.95%, and due in September 2019. The capital lease was paid in full during fiscal year 2019.

(6) Long-Term Debt, continued

CNH Industrial Capital

In October 2013, the District purchased an excavating equipment and entered into a finance agreement with CNH Capital. Monthly lease payments of $634 began on October 2013. The total note payable at the execution of the note was $31,780, with an interest rate of 6.69%, and due October 2018. The loan was paid in full during fiscal year 2019.

GM Financial

In July 2018, the District purchased a vehicle and entered into a finance agreement with GM Financial. Monthly payments of principal and interest of $361 began on August 2018. The total loan payable at the execution of the loan was $22,253. The loan has an interest rate of 5.19% and matures on July 2024. Future annual loan payments of principal and interest are as follows:

Fiscal Year	Principal	Interest	Total
2021	$ 3,591	741	4,332
2022	3,782	550	4,332
2023	3,983	349	4,332
2024	4,195	138	4,333
2025	351	13	364
Total	15,902	1,791	17,693
Current	(3,591)		
Non-current	$ 12,311		

(7) Net Position

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

	2020	2019
Net investment in capital assets:		
Capital assets, net	$ 395,873	408,250
Loan payable – current portion	(3,591)	(3,410)
Loan payable – non-current portion	(12,311)	(15,899)
Total net investment in capital assets	379,971	388,941
Restricted for debt service	29,621	29,621
Unrestricted net position:		
Non-spendable unrestricted net position:		
Prepaid expenses	6,903	20,551
Spendable unrestricted net position is designated as follows:		
Operating reserve	594,514	573,558
Total unrestricted net position	601,417	594,109
Total net position	$ 1,011,009	1,012,672

(8) 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 insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2020:

- Property: $1,828,164 with liability limits varying by property type with a $1,000 deductible.
- General liability including bodily injury and property damage and personal and advertising injury: $1,000,000 limit per occurrence and $10,000,000 in the aggregate.
- Wrongful acts: $1,000,000 per each wrongful act and $10,000,000 in the aggregate.
- Employment practices liability: $1,000,000 per offense and $10,000,000 in the aggregate.
- Employee benefits liability: $1,000,000 and $10,000,000 in the aggregate.
- Automobile: $1,000,000 limit with a $500 deductible.
- Crime coverage: $250,000 limits per occurrence with a $1,000 deductible.

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

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

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. 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.

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

Governmental Accounting Standards Board Statement No. 87, continued

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

Governmental Accounting Standards Board Statement No. 89

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

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

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

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

Governmental Accounting Standards Board Statement No. 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.

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

Governmental Accounting Standards Board Statement No. 90, continued

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.

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.

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.

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.

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

Governmental Accounting Standards Board Statement No. 92

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

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

Governmental Accounting Standards Board Statement No. 93

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

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

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

Governmental Accounting Standards Board Statement No. 94

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

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

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

Governmental Accounting Standards Board Statement No. 96

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

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

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

Governmental Accounting Standards Board Statement No. 97

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

he 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.

(10) 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.

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.

(11) Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of December 16, 2020, which is the date the financial statements were available to be issued.

Supplemental Information

High Valleys Water District
Schedules of System Maintenance Expense
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Fuel and oil – service trucks	$	8,871	10,855
Repair and maintenance – service trucks		3,151	2,084
System maintenance		43,657	27,445
Tools and equipment		236	409
Subcontractor fees		1,927	1,597
Total system maintenance expenses	$	57,842	42,390

High Valleys Water District
Schedules of General and Administrative Expenses
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Accounting	$	12,124	13,475
Board and officer fees		6,600	9,500
Dues/membership fees		3,237	1,951
Election expense		224	-
Employee benefits		50,433	44,393
General insurance		20,852	20,115
Legal		4,880	3,015
Miscellaneous		1,084	1,334
Office maintenance and equipment		6,826	7,363
Office salaries		91,134	82,725
Office expenses		20,093	20,318
Telephone, pagers, and answering service		3,773	3,217
Total general and administrative expenses	$	221,260	207,406

Report on Internal Controls and Compliance

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
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 the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
High Valleys Water District
Banning, 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 High Valleys Water District (District), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

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

However, providing an opinion on compliance with those provisions was not an objective of our audits, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 16, 2020