HESPERIA WATER DISTRICT

COMPONENT UNIT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2023

HESPERIA

1988

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hesperia Water District
Hesperia, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Hesperia Water District Funds (District) (a component unit of the City of Hesperia), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2023, and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter - Change in Accounting Principal

During the fiscal year ended June 30, 2023, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Board of Directors
Hesperia Water District

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Contributions – CalPERS Pension Plan, Schedule of the Proportionate Share of the Net Pension Liability – CalPERS Pension Plan, and the Schedule of the Proportionate Share of the Total OPEB Liability, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
December 19, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Water District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The District's net position increased by approximately $8.3 million, or 7.5%, from the June 30, 2022, net position of $111.1 million. The District's increase in net position to $119.4 million is due, in large part, to the factors listed below:

- Current and other assets grew $11.5 million, or 31.9%, during the fiscal year. The contributing factors include a $11.3 million increase in cash, a $0.3 million increase in self-insurance deposits, a $0.3 increase in inventory, and a $0.2 million increase in interest receivable. These increases were partially offset by a $0.6 million decrease in accounts receivable.
- Capital assets experienced a decrease of $2.1 million, or 2.1%, net of depreciation and amortization. The major contributing factors include a $4.0 million increase in accumulated depreciation partially offset by a $0.9 million increase in construction in progress, a $0.8 million increase in land, and a $0.3 million net increase in vehicles.
- Current and other liabilities increased by $1.8 million, or 18.5%, from the $9.8 million total from June 30, 2022. This overall increase is largely due to a $1.9 million increase in accounts payable and a $0.7 million increase in unearned revenue partially offset by a $0.8 million decrease in total OPEB liabilities.
- Long-term debt outstanding activity during the fiscal year experienced a net decrease of $0.4 million in FY 2022-23. The decrease is primarily due to a scheduled $0.2 million loan payment to the California State Water Resource Control Board and a $0.2 million decrease in subscription-based agreements.
- Net Pension Liability increased by $4.0 million to $7.7 million in FY 2022-23 due to an increase in the District's proportionate share of pension obligations to the retirement system.

USING THIS ANNUAL REPORT

The basic financial statements of the District consist of the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position provides information about the activities of the District as a whole and with the water and sewer functions separately. It also presents a longer-term view of the District's finances.

The Statement of Revenues, Expenses, and Changes in Net Position describes how the services of the District were financed in the short-term, as well as what remains for future spending. The Statement also provides information on the District's operations and can be used to determine whether the District has recovered all its costs through its rates and other charges. This statement can also be used to determine the District's credit worthiness and profitability.

The Statement of Cash Flows provides information regarding the District's cash receipts, cash payments, and changes in cash resulting from operating activities, investing activities, and financing activities. Additionally, the Statement of Cash Flows provides explanations for where cash came from, what was cash used for, and what was the change in cash balance during the reporting period.

REPORTING THE DISTRICT AS A WHOLE

Financial Statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position include all assets, deferred inflows/outflows, and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All the current year's revenues and expenses are recorded regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. The District's financial health or financial position is measured by its net position – the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources.

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 also 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 DISTRICT AS A WHOLE

The Water District maintains the water and sewer infrastructure, including water storage tanks, water pumping equipment, water transmission lines, and sewer lines. The Water District charges its users fees to maintain and operate the system. To display the financial health of the Water District, our analysis focuses on the Condensed Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the District as depicted on the following pages. In the current year, net position increased by 7.5% or approximately $8.3 million.

Table 1

Condensed Statement of Net Position

			Changes from 2022 to 2023	
	2022*	2023	Amount	Percentage
Current and other assets	$ 35,887,340	$ 47,344,375	$ 11,457,035	31.9%
Capital assets	98,910,732	96,817,180	(2,093,552)	-2.1%
Total Assets	134,798,072	144,161,555	9,363,483	6.9%
Deferred outflows of resources	1,938,548	3,742,665	1,804,117	93.1%
Current and other liabilities	9,803,272	11,621,677	1,818,405	18.5%
Long-term debt outstanding	6,853,464	6,431,098	(422,366)	-6.2%
Net pension liability	3,685,806	7,688,827	4,003,021	108.6%
Total Liabilities	20,342,542	25,741,602	5,399,060	26.5%
Deferred inflows of resources	5,275,337	2,728,696	(2,546,641)	-48.3%
Net Position:				
Net Investment in Capital Assets	92,650,987	90,486,643	(2,164,344)	-2.3%
Restricted	385,528	385,528	-	0.0%
Unrestricted	18,082,226	28,561,751	10,479,525	58.0%
Total Net Position	$ 111,118,741	$ 119,433,922	$ 8,315,181	7.5%

* As restated

The following is a list of factors that explain the $8.3 million increase in net position:

- Current and other assets grew $11.5 million, or 31.9%, during the fiscal year. The contributing factors include a $11.3 million increase in cash, a $0.3 million increase in deposits for self-insurance, a $0.3 increase in inventory, and a $0.2 million increase in interest receivable. These were partially offset by a $0.6 million decrease in accounts receivable.
- Capital assets experienced a decrease of $2.1 million, or 2.1%, net of depreciation and amortization. The major contributing factors include a $4.0 million increase in accumulated depreciation partially offset by a $0.9 million increase in construction in progress, a $0.8 million increase in land, and a $0.3 million net increase in vehicles.
- Current and other liabilities increased by $1.8 million, or 18.5%, from the $9.8 million total from June 30, 2022. This increase is largely due to a $1.9 million increase in accounts payable from ongoing operations and a $0.7 million increase in unearned revenue. These increases were partially offset by a $0.8 million decrease in total OPEB liabilities.
- Long-term debt outstanding activity during the fiscal year experienced a net decrease of $0.4 million in Fiscal Year 2022-23. The decrease is primarily due to a $0.2 million decrease from the scheduled California State Water Resource Control Board loan payment and a $0.2 million decrease in subscription-based agreements. Further analysis is detailed within the debt administration section (Table 4).
- Net Pension Liability increased to $7.7 million in FY 2022-23 from the $3.7 million total from June 30, 2022 due to an increase in the District's proportionate share of pension obligations as reported by the California Public Employees Retirement System (CalPERS).

DISTRICT ACTIVITIES

As mentioned, the Water District's net position (from operations) increased $8.3 million, or 7.5%, from the June 30, 2022, net position. Whereas Table 1 focused on the asset and liabilities of the Water District, Table 2 focuses on the District's revenue and expenses. The cost of all Water District activities this year experienced a net decrease in operating expenses of $0.5 million, or 1.7%, compared to June 30, 2022. Further, the amount paid by users of the system was $32.4 million, which is a decrease of $0.8 million, or 2.4%, from the June 30, 2022, total of $33.2 million.

Table 2

Changes in Net Position

			Changes from 2022 to 2023	
	2022	2023	Amount	Percentage
Revenues				
Operating revenues:				
Charges for services	$ 33,154,096	$ 32,354,740	(799,356)	-2.4%
Non-operating revenues (expenses):				
Property taxes	508,958	717,089	208,131	40.9%
Investment Income	(256,590)	621,878	878,468	-342.4%
System improvement and replacement	2,428,104	2,172,386	(255,718)	-10.5%
Rent income	239,804	232,488	(7,316)	-3.1%
Proceeds from sale of equipment	37,234	6,893	(30,341)	100.0%
Grants received	528,024	-	(528,024)	-100.0%
Interest Expense	(58,300)	(67,648)	(9,348)	16.0%
Total non-operating revenues (expenses)	3,427,234	3,683,086	255,852	7.5%
Total revenues and non-operating expenses	36,581,330	36,037,826	(543,504)	-1.5%
Expenses				
Water	22,298,119	21,774,794	(523,325)	-2.3%
Wastewater	5,901,139	5,947,851	46,712	0.8%
Total expenses	28,199,258	27,722,645	(476,613)	-1.7%
Change in net position	8,382,072	8,315,181	(66,891)	-0.8%
Net position at July 1,	102,736,669	111,118,741	8,382,072	8.2%
Net position at June 30,	$ 111,118,741	$ 119,433,922	$ 8,315,181	7.5%

Total revenues and non-operating expenses decreased $0.5 million, or 1.5%, from $36.6 million to $36.0 million between fiscal year 2021-22 and fiscal year 2022-23. The main contributing factors for the overall decrease include a $0.8 million decrease in operating revenues from water and sewer services, a $0.5 million decrease in one-time grant revenues received in FY 2021-22 from water and sewer arrearages grants for delinquent customer accounts, and a $0.3 million decrease in system improvements and replacement. These decreases were offset, in part, by a $0.9 million increase in investment income and a $0.2 million increase in property taxes.

CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions, including infrastructure assets. As of June 30, 2023, capital assets, net of depreciation, totaled $96.8 million, which is a decrease of $2.1 million from the June 30, 2022, total of $98.9 million as shown in the Capital Assets at Year-End (Table 3). This decrease is primarily due to a $4.0 million decrease for the current year depreciation. This decrease is partially offset by a $0.9 million increase in construction in progress, a $0.8 million increase in land, and a net increase of $0.3 million in vehicles.

The District has elected to use the "Basic Approach" as defined by GASB Statement No. 34 for infrastructure reporting for water lines. Using the "Basic Approach", the District will depreciate the value of infrastructure over a forty (40) year period. As replacing of water line segments is done, the value of that work will be added, and any remaining book value of the replaced segment will be reduced from the water facilities infrastructure class. The District's other capital assets are depreciated as outlined in Note 3 to the Basic Financial Statements.

Table 3
Capital Assets at Year-End

	Balance at June 30, 2022, Net of Accumulated Depreciation, as Restated	Increases	Decreases	Net Current Year Depreciation	Balance at June 30, 2023, Net of Accumulated Depreciation
Land	$ 4,891,129	$ 845,610	$ (84)	$ -	$ 5,736,655
Water rights	17,793,410	-	-	-	17,793,410
Construction in progress	214,861	892,434	-	-	1,107,295
Land improvements	1	-	-	-	1
Vehicles	688,566	371,074	(97,563)	(33,493)	928,584
Buildings and improvements	206,464	-	-	(12,529)	193,935
Machinery and equipment	994,324	231,025	(452,607)	233,161	1,005,903
Infrastructure:					
Water facilities	69,063,035	-	-	(3,558,333)	65,504,702
Sewer facilities	4,466,211	-	-	(308,068)	4,158,143
Leased Equipment	38,495	15,688	(44,929)	24,914	34,168
SBITAs	554,236	100,671	-	(300,523)	354,384
Total	$ 98,910,732	$ 2,456,502	(595,183)	(3,954,871)	$ 96,817,180

DEBT ADMINISTRATION

Debt issued by the Hesperia Water District is not the responsibility of the City of Hesperia. In like manner, the debt issued by the City of Hesperia is not the responsibility of the Hesperia Water District. The District's debt experienced a net decrease of $0.4 million in fiscal year 2022-23. The decrease is primarily due to the payment of $0.2 million for the California State Water Resources Control Board Loan and the $0.2 million reduction in Subscription-Based Information Technology Agreements (SBITAs). Table 4 highlights the long-term debt transactions that occurred during the year. Note 4 provides more detailed information about debt.

Table 4
Outstanding Debt at Year-End

	Principal Balance at June 30, 2022, as Restated	Additions	Deductions	Principal Balance at June 30, 2023	Due Within One Year
Loans	$ 5,705,509	$ -	$ (177,581)	$ 5,527,928	179,357
Compensated Absences	338,642	264,209	(256,351)	346,500	339,570
Claims payable	216,492	216,802	(257,957)	175,337	69,320
Leases	38,585	15,691	(19,765)	34,511	8,053
SBITAs	554,236	100,671	(308,085)	346,822	314,138
Total	$ 6,853,464	$ 597,373	$ (1,019,739)	$ 6,431,098	$ 910,438

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As reflected in the Fiscal Year 2023-24 Budget, the District's revenue for the water and sewer funds is expected to increase $1.6 million to $36.5 million from the Fiscal Year 2022-2023 Budget of $34.9 million. The District's Fiscal Year 2023-24 Budget anticipated increase is attributed to sewer billing charges from new residential commercial development connecting to sewer and an increase in delinquency charges. These increases are expected to be partially offset by a decrease in water capital revenues due to an anticipated slowdown in development activity.

The District's expenses are expected to increase by $2.0 million from the Fiscal Year 2022-23 Budget of $35.6 million. The primary reasons for the expenditure increase are due to an anticipated increase of $0.7 million in wastewater treatment costs, a $0.6 million increase in general and administrative costs, and $0.6 million in expenses to upgrade the water production monitoring system.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Division, at the Hesperia Water District, 9700 Seventh Avenue, Hesperia, California 92345.

BASIC FINANCIAL STATEMENTS

HESPERIA WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2023

	Water Operations and Capital	Sewer Operations and Capital	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 19,537,236	$ 17,616,259	$ 37,153,495
Receivables:			
Accounts	4,908,551	962,129	5,870,680
Accrued Interest	159,312	131,054	290,366
Due from Other Governmental Agencies	8,636	6,272	14,908
Leases	1,157,518	-	1,157,518
Deposits	14,328	22,614	36,942
Inventories	1,447,721	-	1,447,721
Due from the City of Hesperia	89,393	60,499	149,892
Total Current Assets	27,322,695	18,798,827	46,121,522
Noncurrent Assets:			
Other Noncurrent Assets:			
Deposits for Self-Insurance	1,098,862	123,991	1,222,853
Capital Assets:			
Land	1,461,771	4,274,884	5,736,655
Water Rights	17,793,410	-	17,793,410
Construction in Progress	286,918	820,377	1,107,295
Land Improvements	534,168	-	534,168
Vehicles	2,208,350	348,661	2,557,011
Machinery and Equipment	4,840,227	586,598	5,426,825
Buildings and Improvements	4,509,810	-	4,509,810
Water and Sewer Facilities	142,842,845	9,733,512	152,576,357
Leased Assets, Right to Use	41,841	-	41,841
SBITA Assets	643,802	11,105	654,907
Less: Accumulated Depreciation	(87,618,642)	(6,194,261)	(93,812,903)
Less: Accumulated Amortization, Leases	(7,673)	-	(7,673)
Less: Accumulated Amortization, SBITA	(297,731)	(2,792)	(300,523)
Total Capital Assets	87,239,096	9,578,084	96,817,180
Total Noncurrent Assets	88,337,958	9,702,075	98,040,033
Total Assets	115,660,653	28,500,902	144,161,555
DEFERRED OUTFLOWS OF RESOURCES			
Deferred OPEB Outflows	296,284	-	296,284
Deferred Pension Outflows	2,996,606	449,775	3,446,381
Total Deferred Outflows of Resources	3,292,890	449,775	3,742,665

See accompanying Notes to Basic Financial Statements.

HESPERIA WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2023

	Water Operations and Capital	Sewer Operations and Capital	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 4,534,409	$ 1,530,796	$ 6,065,205
Contracts and Retainage Payable	13,448	-	13,448
Accrued Interest Payable	25,018	134	25,152
Deposits	697,169	-	697,169
Total OPEB Liability	43,824	-	43,824
Compensated Absences	307,230	32,340	339,570
Claims Payable	61,408	7,912	69,320
Lease Liability	8,053	-	8,053
SBITA Liability	310,208	3,930	314,138
Loans Payable Due Within One Year	179,357	-	179,357
Total Current Liabilities	6,180,124	1,575,112	7,755,236
Noncurrent Liabilities:			
Total OPEB Liability	1,092,623	-	1,092,623
Net Pension Liability	6,685,385	1,003,442	7,688,827
Unearned Revenue	-	3,684,256	3,684,256
Compensated Absences	6,270	660	6,930
Claims Payable	94,692	11,325	106,017
Lease Liability	26,458	-	26,458
SBITA Liability	29,273	3,411	32,684
Loan Payable	5,348,571	-	5,348,571
Total Noncurrent Liabilities	13,283,272	4,703,094	17,986,366
Total Liabilities	19,463,396	6,278,206	25,741,602
DEFERRED INFLOWS OF RESOURCES			
Deferred OPEB Inflows	1,167,985	-	1,167,985
Deferred Pension Inflows	394,569	59,223	453,792
Deferred Leases Inflows	1,106,919	-	1,106,919
Total Deferred Inflows of Resources	2,669,473	59,223	2,728,696
NET POSITION			
Net Investment in Capital Assets	81,268,185	9,218,458	90,486,643
Restricted for Debt Service	385,528	-	385,528
Unrestricted	15,166,961	13,394,790	28,561,751
Total Net Position	$ 96,820,674	$ 22,613,248	$ 119,433,922

See accompanying Notes to Basic Financial Statements.

HESPERIA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

	Water Operations and Capital	Sewer Operations and Capital	Total
OPERATING REVENUES			
Water Sales	$ 24,516,117	$ -	$ 24,516,117
Water Services	1,339,342	-	1,339,342
Sewer Services	-	6,369,839	6,369,839
Other	112,872	16,570	129,442
Total Operating Revenues	25,968,331	6,386,409	32,354,740
OPERATING EXPENSES			
General and Administrative	4,092,746	892,286	4,985,032
Engineering	662,082	115,370	777,452
Production	7,105,771	-	7,105,771
Distribution	2,223,168	-	2,223,168
Wastewater Collection	-	4,547,569	4,547,569
Customer Service	3,536,339	-	3,536,339
Depreciation and Amortization	4,154,688	392,626	4,547,314
Total Operating Expenses	21,774,794	5,947,851	27,722,645
OPERATING INCOME	4,193,537	438,558	4,632,095
NONOPERATING REVENUES (EXPENSES)			
Unrestricted System Improvement and Replacement	2,172,386	-	2,172,386
Property Taxes	717,078	-	717,078
Property Taxes - Debt Service	11	-	11
Rent Income	232,488	-	232,488
Investment Income	320,677	301,201	621,878
Interest Expense	(67,487)	(161)	(67,648)
Gain (Loss) on Disposal of Capital Assets	7,345	(452)	6,893
Total Nonoperating Revenues (Expenses), Net	3,382,498	300,588	3,683,086
CHANGE IN NET POSITION	7,576,035	739,146	8,315,181
Net Position - Beginning of Year	89,244,639	21,874,102	111,118,741
NET POSITION - END OF YEAR	$ 96,820,674	$ 22,613,248	$ 119,433,922

See accompanying Notes to Basic Financial Statements.

HESPERIA WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

	Water Operations and Capital	Sewer Operations and Capital	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Water and Sewer Customers	$ 26,359,552	$ 7,140,701	$ 33,500,253
Cash Received from Other Operating Receipts	112,872	16,570	129,442
Cash Payments for Water Purchases	(5,966,501)	-	(5,966,501)
Cash Payments for Sewer Collection and Maintenance	-	(3,809,364)	(3,809,364)
Cash Payments for Services and Supplies	(2,787,914)	-	(2,787,914)
Cash Payments to Employees for Services	(9,011,139)	(1,275,588)	(10,286,727)
Cash Received from Rent	232,488	-	232,488
Net Cash Provided by Operating Activities	8,939,358	2,072,319	11,011,677
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Property Taxes Received	717,089	-	717,089
Cash Paid to the City of Hesperia	2,579	(16,448)	(13,869)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	719,668	(16,448)	703,220
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(848,461)	(1,491,682)	(2,340,143)
Unrestricted System Improvement and Replacement Receipts	2,172,386	-	2,172,386
Proceeds from Sale of Assets	9,633	-	9,633
Lease payments	(17,119)	(2,646)	(19,765)
SBITA payments	(304,420)	(3,665)	(308,085)
Interest Payments on Long-Term Debt	(66,385)	(27)	(66,412)
Principal Payments on Long-Term Debt	(177,581)	-	(177,581)
Net Cash Provided (Used) by Capital Financing Activities	768,053	(1,498,020)	(729,967)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received	166,424	196,940	363,364
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,593,503	754,791	11,348,294
Cash and Cash Equivalents - Beginning of Year	8,943,733	16,861,468	25,805,201
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 19,537,236	$ 17,616,259	$ 37,153,495

See accompanying Notes to Basic Financial Statements.

HESPERIA WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

	Water Operations and Capital	Sewer Operations and Capital	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES			
Operating Income	$ 4,193,537	438,558	$ 4,632,095
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and Amortization	4,154,688	392,626	4,547,314
Rent income	232,488	-	232,488
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	481,911	85,780	567,691
(Increase) Decrease in Deposits	(307,066)	(38,312)	(345,378)
(Increase) Decrease in Inventory	(251,208)	-	(251,208)
(Increase) Decrease in Due from Other Governments	(2,166)	-	(2,166)
(Increase) Decrease in Deferred Outflows on Pension	(1,682,113)	(228,637)	(1,910,750)
(Increase) Decrease in Deferred Outflows on OPEB	106,633	-	106,633
Increase (Decrease) in Accounts and Claims Payable	1,132,798	706,357	1,839,155
Increase (Decrease) in Customer Deposits	24,348	-	24,348
Increase (Decrease) in Due to Other Governments	-	(2,835)	(2,835)
Increase (Decrease) in Net OPEB Obligation	(769,736)	-	(769,736)
Increase (Decrease) in Deferred Revenue	-	685,082	685,082
Increase (Decrease) in Net Pension Liability	3,530,351	472,670	4,003,021
Increase (Decrease) in Compensated Absences	9,184	(1,326)	7,858
Increase (Decrease) in Deferred OPEB Inflows	644,634	-	644,634
Increase (Decrease) in Deferred Inflows on Pension	(2,558,925)	(437,644)	(2,996,569)
Total Adjustments	4,745,821	1,633,761	6,379,582
Net Cash Provided by Operating Activities	$ 8,939,358	$ 2,072,319	$ 11,011,677
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Change in Unrealized Gain (Loss) in Fair Value of Investments	$ 305,450	$ 254,487	$ 559,937

See accompanying Notes to Basic Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hesperia Water District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The District was organized on March 28, 1975 pursuant to Section 30000 et seq. of the California Water Code. The District has two main areas of responsibility that are as follows:

Water Operations and Capital – The Water Division's main objective is to deliver and ensure adequate supplies of water. The water is to meet all drinking water quality regulations and to maintain District Facilities to ensure unobstructed flows during water runoff.

Sewer Operations and Capital – The Sewer Division's main objective is to transmit and ensure continuous unobstructed flows of sewage to the regional plant.

The District is an integral part of the reporting entity of the City of Hesperia (the City). The accounts of the District have been included within the scope of the basic financial statements of the City because the City Council has financial accountability over the operations of the District.

B. Basis of Presentation

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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

C. Measurement Focus and Basis of Accounting

"Measurement focus" is a term used to describe which transactions are recorded within the various financial statements. "Basis of accounting" refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less.

Cash and investments are pooled with City of Hesperia for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled funds' cash and investment balances. Interest income for cash and investments excluded from pooled cash is credited directly to the related fund. Investment policies applicable to the District's funds are those of the City and are included in the notes to the City's basic financial statements.

E. Capital Assets

Capital assets, which include land, buildings, building improvements, infrastructure, equipment, leases, and SBITAs are depreciated and are reported in the government-wide financial statements. District policy has set the capitalization threshold for reporting capital assets at $5,000 that have a useful life of more than one year. The District also records the value of the intangible right-to-use assets based on the underlying lease assets and SBITA guidance.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction in progress costs are capitalized and transferred to their respective capital asset category upon completion of the project.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Also, right to use the intangible assets, such as lease assets and SBITAs are amortized each year for the term of the contract. Land an construction in progress are not depreciated:

	Years
Buildings	30 - 50
Improvements	20
Machinery and Equipment	5 - 30
Vehicles	8 - 20
Water and Sewer Facilities	40
Infrastructure	20

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The category of deferred outflow of resources reported in the government wide statement of net position and the proprietary funds financial statements and is related to pension and other postemployment benefits. Deferred outflows on pension and other postemployment benefits are more fully discussed in Notes 7 and 8, respectively.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The District’s deferred inflows of resources reported on the statement of net position relate to pension and other postemployment benefits, which are more fully discussed in Notes 7 and 8, respectively. The District’s deferred inflows of resources reported on the statement of net position also include balances related to leases for amounts not yet received. These amounts are deferred and recognized as an inflow of resources in the period that the amounts are available or earned.

G Receivables

All accounts, taxes, and service receivables are shown net of an allowance for uncollectibles of $499,179.

H. Inventories

Inventories are valued at cost on a first-in, first-out basis. The inventory consists of meters, pipes, and other parts required providing water and wastewater services to customers and is recorded on the consumption basis.

I. Leases

When the District is a lessee, a lease liability and a lease asset is recognized at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Leases (Continued)

When the District is a lessor, a lease receivable and a deferred inflow of resources is recognized at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

J. Subscription-Based Information Technology Arrangements (SBITAs)

The District recognizes a SBITA liability and a SBITA asset at the commencement of the SBITA term, unless the SBITA is a short-term contract. The SBITA liability should be measured at the present value of payments expected to be made during the contract term. The SBITA asset should be measured at the amount of the initial measurement of the SBITA liability, plus any implementation costs.

K. Net Position

In the statement of net position, the net position is classified in the following categories:

- *Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt and payables that are attributed to the acquisition, construction, or improvement of the assets.

- *Restricted Net Position* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

- *Unrestricted Net Position* – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

L. 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 additions to/deductions 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Adoption of New Accounting Standards

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

The District adopted the requirements of the guidance effective July 1, 2022 and has applied the provisions of this standard to the beginning of the period of adoption. The implementation of this standard resulted in the District reporting a SBITA asset and a SBITA liability as disclosed in Note 4 and Note 5.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and investments at June 30, 2023 are classified in the accompanying financial statements as follows:

	Balance at June 30, 2023
Statement of Net Position:	
Current Assets:	
Cash and Cash Equivalents	$ 37,153,495
Total Cash and Investments	$ 37,153,495

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 Years	Unlimited	None
U.S. State or Local Agency Securities	5 Years	Unlimited	None
Banker's Acceptances	180 Days	25%	5%
Commercial Paper	270 Days	15%	10%
Negotiable Certificates of Deposit	5 Years	25%	None
Repurchase Agreements	1 Year	20%	None
Local Agency Investment Fund (LAIF)	N/A	Unlimited	None
Medium-Term Notes	5 Years	30%	None
Mutual and Money Market Funds	N/A	20%	10%
Collateralized Bank Deposits	5 Years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 Years	10%	None
Supranational Obligations	5 Years	30%	None
Public Bank Obligations	5 Years	100%	None

* Excluding amounts held by bond trustee that are not subject to California government code restrictions.

Investments Authorized by Debt Agreements

Investments authorized for funds held by bond trustees include U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, Certificates of Deposits, Commercial Paper, Local Agency Bonds, Bankers' Acceptances, Money Market Mutual Funds, Repurchase Agreements, Investment Contracts, and any other investments permitted by bond insurer and are legal investments under state laws. There were no limitations on the maximum amount that can be invested in one issuer or maximum percentage allowed.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Disclosures Related to Interest Rate Risk, Credit Risk, Custodial Credit Risk, and Fair Value Measurements

The District's cash and investments are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding $25,805,201 in pooled investments related to interest rate risk, credit risk, custodial credit risk, and fair value measurements are available in the City of Hesperia's Annual Comprehensive Financial Report.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The District's amounts included in the investment pool of the City of Hesperia is not subject to fair value measurement.

NOTE 3 LEASES

The District, acting as lessor, leases parcels of land for communications towers under long-term, noncancelable lease agreements. The leases expire at various dates through 2031, provide for renewal options in five-year increments, and have interest rates ranging from 0.83% to 2.38%. During the year ended June 30, 2023, the District recognized $194,704 and $25,948 in lease revenue and interest revenue, respectively, pursuant to these contracts. Leases receivable activity and balances are as follows:

	June 30, 2022	Additions	Deductions	June 30, 2023
Leases receivable	$ 1,330,378	$ -	$ (172,860)	$ 1,157,518

NOTE 4 CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2023 was as follows:

	Balance at June 30, 2022, as Restated (1)	Increases	Decreases	Balance at June 30, 2023
Capital Assets, Not Being Depreciated:				
Land	$ 4,891,129	$ 845,610	$ (84)	$ 5,736,655
Water Rights	17,793,410	-	-	17,793,410
Construction in Progress	214,861	892,434	-	1,107,295
Total Capital Assets, Not Being Depreciated	22,899,400	1,738,044	(84)	24,637,360
Capital Assets Being Depreciated:				
Land Improvements	534,168	-	-	534,168
Vehicles	2,283,500	371,074	(97,563)	2,557,011
Machinery and Equipment	5,648,407	231,025	(452,607)	5,426,825
Buildings and Improvements	4,509,810	-	-	4,509,810
Water Facilities	142,842,845	-	-	142,842,845
Sewer Facilities	9,733,512	-	-	9,733,512
Total Capital Assets, Being Depreciated	165,552,242	602,099	(550,170)	165,604,171
Less Accumulated Depreciation for:				
Land Improvements	(534,167)	-	-	(534,167)
Vehicles	(1,594,934)	(131,056)	97,563	(1,628,427)
Machinery and Equipment	(4,654,083)	(216,790)	449,951	(4,420,922)
Buildings and Improvements	(4,303,346)	(12,529)	-	(4,315,875)
Water Facilities	(73,779,810)	(3,558,333)	-	(77,338,143)
Sewer Facilities	(5,267,301)	(308,068)	-	(5,575,369)
Total Accumulated Depreciation	(90,133,641)	(4,226,776)	547,514	(93,812,903)
Total Capital Assets, Being Depreciated, Net	75,418,601	(3,624,677)	(2,656)	71,791,268
Leased Assets Being Depreciated:				
Right to Use Asset - Equipment	71,082	15,688	(44,929)	41,841
Accumulated Amortization	(32,587)	(20,015)	44,929	(7,673)
Total Leased Assets, Being Depreciated, Net	38,495	(4,327)	-	34,168
Leased Assets Being Depreciated:				
Right to Use Asset - Equipment	554,236	100,671	-	654,907
Accumulated Amortization	-	(300,523)	-	(300,523)
Total Leased Assets, Being Depreciated, Net	554,236	(199,852)	-	354,384
Total Capital Assets, Net	$ 98,910,732	$ (2,090,812)	$ (2,740)	$ 96,817,180

(1) The beginning balance was restated due to the implementation of GASB Statement No. 96, *SBITAs*, See Note 1.

Depreciation and amortization expense for the year ended June 30, 2023 was $4,154,688 for Water operations and capital and $392,626 for Sewer operations and capital.

NOTE 5 LONG-TERM DEBT

The summary of changes in principal balance of long-term debt for the year ended June 30, 2023:

	Principal Balance at June 30, 2022	Additions	Deductions	Principal Balance at June 30, 2023	Due Within One Year
Direct Borrowings:					
Loan Payable - SRF	$ 5,705,509	$ -	$ (177,581)	$ 5,527,928	$ 179,357
Other Debt:					
Leases	38,585	15,691	(19,765)	34,511	8,053
SBITA Liabilities	554,236	100,671	(308,085)	346,822	314,138
Other Long-Term Liabilities:					
Compensated Absences	338,642	264,209	(256,351)	346,500	339,570
Claims Payable	216,492	216,802	(257,957)	175,337	69,320
Total Long-Term Debt	$ 6,853,464	$ 597,373	$ (1,019,739)	$ 6,431,098	$ 910,438

Long-term debt at June 30, 2023 is comprised of the following issues:

	Amount
SRF Loan Payable	$ 5,527,928
Leases	34,511
SBITAs	346,822
Compensated Absences	346,500
Claims Payable	175,337
Total Long-Term Debt Before Current Portion	6,431,098
Less: Current Portion - Due Within One Year	(910,438)
Total Long-Term Portion of Long-Term Debt	$ 5,520,660

State Revolving Fund Loan

On December 15, 2015, the Hesperia Water District Board of Directors approved a California Clean Water State Revolving Fund Loan with the California State Water Resources Control Board to finance the construction of a reclaimed water pipeline distribution system. State approval was obtained on September 23, 2016 in an amount up to $9,946,413 at 1% interest, with repayment of principal and interest on the 30-year loan commencing one year after the completion of construction. Construction was completed in 2020 and total draws amounted to $6,012,919.

NOTE 5 LONG-TERM DEBT (CONTINUED)

State Revolving Fund Loan (Continued)

The annual debt service requirements by year for the State Revolving Fund Loan are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2024	$ 179,357	$ 55,279	$ 234,636
2025	181,150	53,486	234,636
2026	182,962	51,674	234,636
2027	184,791	49,845	234,636
2028	186,639	47,997	234,636
2029 - 2033	961,568	211,611	1,173,179
2034 - 2038	1,010,617	162,562	1,173,179
2039 - 2043	1,062,169	111,010	1,173,179
2044 - 2048	1,116,350	56,829	1,173,179
2049 - 2050	462,325	6,946	469,271
Total	$ 5,527,928	$ 807,239	$ 6,335,167

Leases

The District leases equipment for various terms under long-term noncancelable lease agreements. The leases expire at various dates through 2028, do not contain renewal options, and have interest rates ranging from 0.30% to 3.497%.

Total future minimum lease payments under lease agreements are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2024	$ 8,053	$ 978	$ 9,031
2025	8,313	718	9,031
2026	8,582	449	9,031
2027	7,909	173	8,082
2028	1,654	16	1,670
Total	$ 34,511	$ 2,334	$ 36,845

The lease liability is recorded as follows:

Lease Liability by Fund	Amount
Water Fund	$ 34,511
Subtotal - Business-Type Activities	$ 34,511

SBITAs

The District has entered into subscription based-information technology arrangements (SBITAs) for various software, cloud services, and online system subscriptions. The SBITA arrangements expire at various dates through 2026 and provide for renewal options. The District’s SBITA arrangements do not have variable payments.

NOTE 5 LONG-TERM DEBT (CONTINUED)

SBITAs (Continued)

As of June 30, 2023, the District SBITA assets and the related accumulated amortization totaled $654,907 and $300,523, respectively. See more details of these balances in Note 4, Capital Assets.

The future subscription payments under SBITA agreements are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2024	$ 314,138	$ 5,487	$ 319,625
2025	32,684	1,090	33,774
Total	$ 346,822	$ 6,577	$ 353,399

SBITA liabilities are recorded as follows:

SBITA Liabilities by Fund	Amount
Water Fund	$ 339,481
Sewer Fund	7,341
Subtotal - Business-Type Activities	$ 346,822

NOTE 6 SELF-INSURANCE RISK POOL

Public Entity Risk Management Authority

The Water District is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 32 California cities and districts, for the purpose of pooling the District's risk for workers' compensation and general liability insurance with those of other member cities and districts. The governing board of PERMA is comprised of directors nominated and selected by each member city and district. Each governing board member has one vote regarding all financial and management issues coming before the board.

Each member is billed annually for general liability and premiums are paid quarterly for workers' compensation insurance. Estimated premiums for claims to be paid and a reserve are advanced upon joining PERMA. Each year PERMA adjusts its premiums based on District payroll figures, claims paid, and claims incurred but not reported. The District receives audited financial statements of PERMA each year which have been audited by other auditors.

The Water District is self-insured for the first $250,000 of each claim, pertaining to workers' compensation liability coverage, and PERMA will assume each claim's liability between $250,000 and $500,000. For any workers' compensation liability claim exceeding $500,000, the District is insured by Excess Insurer's Limited Liability for up to $5,000,000 of each employer's liability claim and up to Statutory for each workers' compensation claim.

NOTE 6 SELF-INSURANCE RISK POOL (CONTINUED)

Public Entity Risk Management Authority (Continued)

For General Liability, the District is self-insured for up to $50,000. PERMA will assume each claim exceeding $50,000 to $1,000,000. For all general liability claims exceeding $1,000,000, the District is insured by Excess Insurers Limit of Liability for up to $50,000,000. There were no instances in the past three years where a settlement exceeded the District's general liability coverage.

Changes in the balances of claims liabilities during the years ended June 30, 2023 and 2022, are as follows:

	Year Ended June 30, 2022	Year Ended June 30, 2023
Unpaid Claims, Beginning of Fiscal Year	$ 443,982	$ 216,492
Incurred Claims and Changes in Estimated Claims Liabilities	(105,206)	216,802
Claim Payments	(122,284)	(257,957)
Unpaid Claims, End of Fiscal Year	$ 216,492	$ 175,337

NOTE 7 PUBLIC EMPLOYEES RETIREMENT SYSTEM

A. General Information About the Pension Plans

Plan Descriptions

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

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 to 62 with statutorily reduced benefits. For employees hired into a plan with the 2.7% at 55 formula, eligibility for service retirement is age 55 with at least five years of services. PEPRA miscellaneous members become eligible for service retirement upon attainment of age 52 with at least five years of service. All members are eligible for nonduty disability benefits after five 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. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 7 PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

A. General Information About the Pension Plans (Continued)

Benefits Provided (Continued)

The Plans' provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous	
Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Benefit Formula	2.7% at 55	2% at 62
Benefit Vesting Schedule	Five Years of Service	Five Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50 to 55+	52 to 67+
Monthly Benefits, as a Percentage of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates (1)	7.956%	6.750%
Required Employer Contribution Rates:		
Normal Cost Rate	14.030%	7.470%
Payment of Unfunded Liability	$ 551,617	$ 7,535

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS's annual actuarial valuation process. 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. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions. During the fiscal year, the District contributed $991,750 to the miscellaneous plan.

B. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2023, the District reported a liability of $7,688,827 for its proportionate share of the net pension liability which was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension Plans relative to the projected contributions of all participating employers, actuarially determined.

NOTE 7 PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

B. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The District's proportionate share of the net pension liability as of the measurement dates ended June 30, 2021 and 2022, are as follows:

Proportion - June 30, 2021	0.06815%
Proportion - June 30, 2022	0.06657%
Change - Increase (Decrease)	-0.00158%

The District recognized pension expense of $87,452 for the fiscal year ended June 30, 2023 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	$ 991,750	$ -
Differences Between Actual and Expected Experience	154,407	(103,415)
Change in Assumptions	787,881	-
Changes in Employer's Proportion	103,954	(78,588)
Changes in Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	-	(271,789)
Net Differences Between Projected and Actual Earnings on Plan Investments	1,408,389	-
Total	$ 3,446,381	$ (453,792)

$991,750 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Endied June 30,	Amount
2024	$ 498,413
2025	419,709
2026	221,298
2027	861,419
2028	-

NOTE 7 PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

B. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Deferred amounts related to the net difference in projected and actual earnings are amortized over five years. Deferred amounts related to the differences between expected and actual experience, changes in assumptions, and changes in proportion and differences between the City's contributions and proportionate share of contributions are amortized over a closed period equal to the average of the expected remaining service lives of all employees provided with pensions through the plans.

Actuarial Assumptions

The total pension liability was based on the following assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increase	(1)
Mortality Rate Table	(2)
Postretirement Benefit Increase	(3)

(1) Varies by entry age and service.
(2) Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.
(3) Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.30% thereafter.

Long-Term Expected Rate of Return

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

NOTE 7 PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

B. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Long-Term Expected Rate of Return (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short- term and long-term market return expectations. Using historical returns all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return (a) (b)
Global Equity - Cap-weighted	30.00 %	4.54 %
Global Equity - Non-Cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed Securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yield	5.00	2.27
Emerging Market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	(5.00)	(0.59)
Total	100.00 %	

(a) An expected inflation of 2.3% was used for this period.
(b) Figures are based on the 2021 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Change in Assumptions

The discount rate and long-term rate of return decreased from 7.15% to 6.90% and the inflation rate decreased from 2.50% to 2.30% from the measurement date June 30, 2021 to June 30, 2022.

NOTE 7 PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

B. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

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

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

1 Percent Decrease	5.90%
Net Pension Liability	$ 11,666,647
Current Discount Rate	6.90%
Net Pension Liability	$ 7,688,827
1 Percent Increase	7.90%
Net Pension Liability	$ 4,416,068

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payables to the Pension Plan

At June 30, 2023, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2023.

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

A. General Information About OPEB

Plan Descriptions

The District participates in the City's defined benefit other postemployment benefits health care plan, a single employer plan. During fiscal year 2022-2023, the City entered into agreements with Shuster Advisory Group LL, Charles Schwab Trust Bank, and ALTA Trust Company to join other entities in an OPEB and pension 115 Trust. Since this trust was not created as of the end of the measurement date ended June 30, 2022, the following note disclosure still shows the plan as single-employer instead of agent multiple-employer. The plan, which is administered by the City, provides certain health-care benefits to retired and disabled employees and their beneficiaries. Specifically, the City provides health insurance for its retired employees according to the Personnel Rules and Regulations. The authority to do so is included annually in the Memorandum of Understanding between the City and each of its employee groups and ultimately passed by Council action. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The plan does not issue a separate report.

B. Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

As of June 30, 2023, the District reported a liability of $1,136,447 for its proportionate share of the total OPEB liability which was measured as of June 30, 2022. The total OPEB liability used to calculate the OPEB liability was determined by an actuarial valuation as of June 30, 2022. The District's proportionate share of the Total OPEB liability was based on a projection of the District's long-term share of contributions to the plan relative to the projected contributions of all participating funds, actuarially determined.

The District's proportionate share of the OPEB liability as of the measurement dates ended June 30, 2021 and 2022, are as follows:

Proportion - June 30, 2021	27.30000%
Proportion - June 30, 2022	26.40000%
Change - Decrease	-0.90000%

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

B. Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

The District recognized OPEB expense of $15,239 for the fiscal year ended June 30, 2023 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ 33,709	$ -
Differences Between Actual and Expected Experience	-	(307,545)
Changes in Proportion	-	(168,199)
Changes in Assumptions	262,575	(692,241)
Total	$ 296,284	$ (1,167,985)

$33,709 reported as deferred outflows of resources resulting from District's contributions subsequent to measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2024. This amount also represents the current year contributions. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended June 30,	Amount
2024	$ (156,162)
2025	(156,162)
2026	(131,836)
2027	(67,567)
2028	(69,241)
Thereafter	(324,442)

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

B. Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Actuarial Assumptions and Other Inputs

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

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.54%
Inflation	2.50%
Projected Salary Increase	Aggregate - 2.75%
Health-Care Cost Trend Rates	Non-Medicare - 8.50% for 2024, decreasing to 3.45% in 2076 Medicare - 7.50% for 2024, decreasing to 3.45% in 2076 Medicare (Kaiser) - 6.25% for 2023, decreasing to 3.45% in 2076
Mortality, Retirement, Disability, Termination	Derived from CalPERS 2000 - 2019 experience study

Discount Rate

There are no assets accumulated in a separately established trust fund, therefore, the discount rate was based on a high-quality 20-year tax-exempt bond buyer index rate. The municipal bond rate utilized was 3.54%.

Change in Assumption

The discount rate was changed from 2.16 % to 3.54% and the inflation rate was changed from 2.75% to 2.50%. Also, the CalPERS experience study was updated from 1997-2015 to 2000-2019. The healthcare trend rates were also updated from 7.25% to 8.50% and 6.30% to 7.50% for Non-Medicare and Medicare, respectively.

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

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

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

	1 Percent Decrease 2.54%	Discount Rate 3.54%	1 Percent Increase 4.54%
Total OPEB Liability	$ 1,313,064	$ 1,136,447	$ 993,521

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

	1% Decrease (1)	Current Health-Care Cost Trend Rates (2)	1% Increase (3)
Total OPEB Liability	$ 1,549,450	$ 1,136,447	$ 2,384,493

(1) Non-Medicare - 7.50% for 2024, decreasing to 2.45% in 2076
Medicare - 6.50% for 2024, decreasing to 2.45% in 2076
Medicare (Kaiser) - 5.25% for 2023, decreasing to 2.45% in 2076

(2) Non-Medicare - 8.50% for 2024, decreasing to 3.45% in 2076
Medicare - 7.50% for 2024, decreasing to 3.45% in 2076
Medicare (Kaiser) - 6.25% for 2023, decreasing to 3.45% in 2076

(3) Non-Medicare - 9.50% for 2024, decreasing to 4.45% in 2076
Medicare - 8.50% for 2024, decreasing to 4.45% in 2076
Medicare (Kaiser) - 7.25% for 2023, decreasing to 4.45% in 2076

REQUIRED SUPPLEMENTARY INFORMATION

HESPERIA WATER DISTRICT
SCHEDULE OF THE HESPERIA WATER DISTRICT CONTRIBUTIONS
CalPERS PENSION PLAN
LAST EIGHT MEASUREMENT PERIODS[1]

Fiscal Year-End	2023	2022	2021	2020	2019	2018	2017	2016	2015[1]
Contractually Required Contribution (Actuarial Determined)	$ 991,750	$ 879,472	$ 805,118	$ 661,300	$ 568,588	$ 48,669	$ 458,173	$ 413,694	$ 407,848
Contributions in Relation to the Contractually Required Contribution	(991,750)	(879,472)	(805,118)	(661,300)	(568,588)	(48,669)	(458,173)	(413,694)	(407,848)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's Covered Payroll[2]	$ 3,720,333	$ 3,316,337	$ 3,160,332	$ 3,314,362	$ 3,113,931	$ 3,070,918	$ 2,922,069	$ 2,856,162	$ 2,886,343
Contributions as a Percentage of Covered Payroll[2]	26.66%	26.52%	25.48%	19.95%	18.26%	1.58%	15.68%	14.48%	14.13%

[1] Historical information was changed from the actuarial determined contributions to actual contributions for each fiscal year as indicated by GASB 68, paragraph 81(b).
[2] The District's covered payroll was recalculated based on actual pensionable earnings reported to CalPERS during the fiscal year.

Notes to Schedule:

Valuation Date	06/30/20	06/30/19	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	15-Year Smoothed Market Method
Inflation	2.30%	2.50%	2.50%	2.50%	2.50%	2.75%	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Investment Rate 0f Return	6.90% (3)	7.00% (3)	7.00% (3)	7.00% (3)	7.15% (3)	7.15% (3)	7.65% (3)	7.65% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)

(1) Level percentage of payroll, closed.
(2) Depending on age, service, and type of employment.
(3) Net of pension plan investment expense, including inflation.
(4) Minimum 50 years.
(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2015 was the first year of implementation and therefore only nine years are shown.

HESPERIA WATER DISTRICT
SCHEDULE OF HESPERIA WATER DISTRICT
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CalPERS PENSION PLAN
LAST EIGHT FISCAL YEARS[1]

Fiscal Year-End	2023	2022	2021	2020	2019	2018	2017	2016	2015
Measurement Period	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability/(Asset)	0.16432%	0.19411%	0.15156%	0.14490%	0.13870%	0.13407%	0.12900%	0.12370%	0.10242%
District's Proportionate Share of the Net Pension Liability/(Asset)	$ 7,688,827	$ 3,685,806	$ 6,392,987	$ 5,802,661	$ 5,227,134	$ 5,285,098	$ 4,481,347	$ 3,393,749	$ 2,531,398
District's Covered Payroll[2]	$ 3,316,337	$ 3,160,332	$ 3,314,362	$ 3,113,931	$ 3,070,918	$ 2,922,069	$ 2,856,162	$ 2,886,343	$ 2,947,053
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll[2]	231.85%	116.63%	192.89%	186.35%	170.21%	180.87%	156.90%	117.58%	85.90%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	78.19%	90.49%	77.71%	77.73%	77.69%	75.39%	75.87%	79.89%	81.15%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] The District covered-employee payroll was recalculated based on actual pensionable earnings reported to CalPERS as of the measurement date.

HESPERIA WATER DISTRICT
SCHEDULE OF HESPERIA WATER DISTRICT
PROPORTIONATE SHARE OF THE OPEB LIABILITY
LAST FIVE MEASUREMENT PERIODS[1]

Fiscal Year-End	2023	2022	2021	2020	2019	2018
Measurement Period	2022	2021	2020	2019	2018	2017
District's Proportion of Total OPEB Liability	26.40%	27.30%	30.00%	29.30%	29.20%	28.90%
District's Proportionate Total OPEB Liability	$ 1,136,447	$ 1,906,183	$ 1,938,008	$ 1,425,282	$ 1,244,268	$ 1,651,138
District's Covered-Employee Payroll	$ 3,316,337	$ 3,160,332	$ 3,314,362	$ 3,113,931	$ 3,070,918	$ 2,922,069
District's Proportionate Share of OPEB Liability as a Percentage of its Covered Payroll	34.27%	60.32%	58.47%	45.77%	40.52%	56.51%

* Fiscal year 2018 was the first year of implementation and therefore only six years are shown.