



**Annual Financial Report  
For the Fiscal Years Ended June 30, 2020 and 2019**



**Board of Directors as of June 30, 2020**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allen G. Flick, Sr.	President	2021
James Powell, DDS	Vice President	2021
Peggy Powell	Director	2021
K. Michael Scott	Director	2023
Sheldon Carter	Director	2023

**Chad Reed, General Manager  
Quartz Hill Water District  
5034 West Avenue L  
Quartz Hill, California 93536  
(661) 943-3170 [www.qhwd.org](http://www.qhwd.org)**

**Quartz Hill Water District**  
**Annual Financial Report**  
**For the Years Ended June 30, 2020 and 2019**

**Table of Contents**

	<b><u>Page No.</u></b>
Table of Contents	i
<b>Financial Section</b>	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Statements of Net Position	8-9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11-12
Notes to the Basic Financial Statements	13-43
<b>Required Supplementary Information Section</b>	
Schedules of the District's Proportionate Share of the Net Pension Liability	44
Schedules of Pension Plan Contributions	45
Schedules of the Change in the District's Total OPEB Liability and Related Ratios	46
<b>Report on Internal Controls and Compliance</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47-48

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# **Financial Section**

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## Independent Auditor's Report

Board of Directors  
Quartz Hill Water District  
Quartz Hill, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Quartz Hill Water District (District), which comprises the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

#### *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 controls 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 basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 financial position of the Quartz Hill Water District as of June 30, 2020 and 2019, and the changes in net position and cash flows 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 on pages 3 through 7 and the required supplementary information on pages 44 through 46 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 47 and 48.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
October 15, 2020

**Quartz Hill Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2020 and 2019**

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

**Financial Highlights**

- In 2020, the District's net position increased 3.35% or \$922,558 to \$28,490,892 as a result of ongoing operations and capital contributions. In 2019, the District's net position increased 4.36% or \$1,152,720 to \$27,568,334 as a result of ongoing operations and capital contributions.
- In 2020, the District's operating revenues increased 1.40% or \$79,515 to \$5,743,588. In 2019, the District's operating revenues decreased 0.55% or \$31,316 to \$5,664,073.
- In 2020, the District's non-operating revenues decreased 9.25% or \$101,958 to \$1,000,245. In 2019, the District's non-operating revenues increased 124.20% or \$610,595 to \$1,102,203.
- In 2020, the District's total operating expenses increased 4.21% or \$219,875 to \$5,436,848; which includes increases of \$188,172 in other operating expenses to \$4,515,937 and \$31,703 in depreciation expense to \$920,911. In 2019, the District's total operating expenses increased 4.28% or \$214,329 to \$5,216,973; which includes increases of \$207,644 in other operating expenses and \$6,685 in depreciation expense.
- In 2020, the District's non-operating expenses decreased 2.99% or \$12,156 to \$394,233. In 2019, the District's non-operating expenses decreased 0.52% or \$2,141 to \$406,389.

**Required Financial Statements**

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

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

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question.

**Quartz Hill Water District**  
**Management's Discussion and Analysis, continued**  
**For the Years Ended June 30, 2020 and 2019**

**Financial Analysis of the District, continued**

These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. You can think of the District's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as the change in economic conditions, population growth, zoning, and new or changed government legislation, such as the change 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 13 through 43.

**Statement of Net Position**

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 deferred inflows of resources by \$28,490,892 and \$27,568,334 as of June 30, 2020 and 2019, respectively.

**Condensed Statements of Net Position**

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 14,629,521	10,428,201	4,201,320	10,465,565	(37,364)
Non-current assets	4,249,441	7,117,726	(2,868,285)	6,448,907	668,819
Capital assets, net	<u>21,737,685</u>	<u>22,115,750</u>	<u>(378,065)</u>	<u>21,495,704</u>	<u>620,046</u>
<b>Total assets</b>	<u>40,616,647</u>	<u>39,661,677</u>	<u>954,970</u>	<u>38,410,176</u>	<u>1,251,501</u>
<b>Deferred outflows of resources</b>	<u>514,491</u>	<u>625,329</u>	<u>(110,838)</u>	<u>756,383</u>	<u>(131,054)</u>
<b>Liabilities:</b>					
Current liabilities	1,014,806	1,004,892	9,914	906,052	98,840
Non-current liabilities	<u>10,616,812</u>	<u>11,469,416</u>	<u>(852,604)</u>	<u>11,451,960</u>	<u>17,456</u>
<b>Total liabilities</b>	<u>11,631,618</u>	<u>12,474,308</u>	<u>(842,690)</u>	<u>12,358,012</u>	<u>116,296</u>
<b>Deferred inflows of resources:</b>	<u>1,008,628</u>	<u>244,364</u>	<u>764,264</u>	<u>392,933</u>	<u>(148,569)</u>
<b>Net position:</b>					
Net investment in capital assets	14,612,685	14,825,750	(213,065)	14,045,704	780,046
Restricted	590,126	583,214	6,912	572,237	10,977
Unrestricted	<u>13,288,081</u>	<u>12,159,370</u>	<u>1,128,711</u>	<u>11,797,673</u>	<u>361,697</u>
<b>Total net position</b>	<u>\$ 28,490,892</u>	<u>27,568,334</u>	<u>922,558</u>	<u>26,415,614</u>	<u>1,152,720</u>

**Quartz Hill Water District**  
**Management's Discussion and Analysis, continued**  
**For the Years Ended June 30, 2020 and 2019**

**Statement of Net Position, continued**

A portion of the District's net position, 51.29% and 53.78% 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.

At the end of fiscal years 2020 and 2019, the District showed a positive balance in its unrestricted net position of \$13,288,081 and \$12,159,370, respectively. See note 11 for further discussion.

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

The statement of revenues, expenses, and changes in net position shows how the District's net position changed during the year. In the case of the District, net position increased 3.35% or \$922,558 from \$27,568,334 to \$28,490,892, as a result of ongoing operations and capital contributions for the year ended June 30, 2020; and net position increased 4.36% or \$1,152,720 from \$26,415,614 to \$27,568,334, as a result of ongoing operations and capital contributions for the year ended June 30, 2019.

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

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
<b>Revenues:</b>					
Operating revenues	\$ 5,743,588	5,664,073	79,515	5,695,389	(31,316)
Non-operating revenues	1,000,245	1,102,203	(101,958)	491,608	610,595
<b>Total revenues</b>	<u>6,743,833</u>	<u>6,766,276</u>	<u>(22,443)</u>	<u>6,186,997</u>	<u>579,279</u>
<b>Expenses:</b>					
Operating expenses	4,515,937	4,327,765	188,172	4,120,121	207,644
Depreciation expense	920,911	889,208	31,703	882,523	6,685
Non-operating expenses	394,233	406,389	(12,156)	408,530	(2,141)
<b>Total expenses</b>	<u>5,831,081</u>	<u>5,623,362</u>	<u>207,719</u>	<u>5,411,174</u>	<u>212,188</u>
<b>Net income before capital contributions</b>	912,752	1,142,914	(230,162)	775,823	367,091
<b>Capital contributions</b>	9,806	9,806	-	11,361	(1,555)
<b>Changes in net position</b>	922,558	1,152,720	(230,162)	787,184	365,536
<b>Net position, beginning of year</b>	<u>27,568,334</u>	<u>26,415,614</u>	<u>1,152,720</u>	<u>25,628,430</u>	<u>787,184</u>
<b>Net position, end of year</b>	<u>\$ 28,490,892</u>	<u>27,568,334</u>	<u>922,558</u>	<u>26,415,614</u>	<u>1,152,720</u>

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

In 2020, the District's total revenues decreased 0.33% or \$22,443 to \$6,743,833. The District's operating revenues increased 1.40% or \$79,515 to \$5,743,588 from operations. The District's non-operating revenues decreased 9.25% or \$101,958 to \$1,000,245, due primarily to a decrease of \$111,346 in investment earnings.

**Quartz Hill Water District**  
**Management's Discussion and Analysis, continued**  
**For the Years Ended June 30, 2020 and 2019**

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

In 2019, the District's total revenues increased 9.36% or \$579,279 to \$6,766,276. The District's operating revenues decreased 0.55% or \$31,316 to \$5,664,073. The District's non-operating revenues increased 124.20% or \$610,595 to \$1,102,203, due primarily to increases of \$542,691 in investment earnings, \$33,576 in property taxes, and \$30,000 in the gain from sale of capital assets.

In 2020, the District's total operating expenses, including depreciation expense, increased 4.21% or \$219,875 to \$5,436,848 due primarily to increases of \$154,782 in customer accounts and \$149,342 in administrative and general expenses; which were offset by a decrease of \$122,206 in transmission and distribution.

In 2019, the District's total operating expenses, including depreciation expense, increased 4.28% or \$214,329 to \$5,216,973 due primarily to increases of \$351,461 in water purchases and \$184,628 in transmission and distribution; which were offset by a decrease of \$266,524 in customer accounts.

In 2020, the District's non-operating expenses decreased 2.99% or \$12,156. In 2019, the District's non-operating expenses decreased 0.52% or \$2,141.

**Capital Asset Administration**

At the end of years 2020 and 2019, the District's investment in capital assets amounted to \$21,737,685 and \$22,115,750, respectively (net of accumulated depreciation). This investment in capital assets includes land, water distribution and treatment plant, pumping plant and equipment, wells and reservoirs, buildings and structures, equipment, vehicles, and construction-in-process. See note 6 for further discussion.

Changes in capital asset amount for 2020 were as follows:

	<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>2020</u>
Capital assets:					
Non-depreciable assets	\$ 1,435,992	-	(628,478)	(9,806)	797,708
Depreciable assets	33,073,677	1,173,019	(34,197)	9,806	34,222,305
Accumulated depreciation	<u>(12,393,919)</u>	<u>(920,911)</u>	<u>32,502</u>	<u>-</u>	<u>(13,282,328)</u>
Total capital assets, net	<u>\$ 22,115,750</u>	<u>252,108</u>	<u>(630,173)</u>	<u>-</u>	<u>21,737,685</u>

Changes in capital asset amount for 2019 were as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>2019</u>
Capital assets:					
Non-depreciable assets	\$ 854,052	597,663	(15,723)	-	1,435,992
Depreciable assets	32,506,153	927,314	(359,790)	-	33,073,677
Accumulated depreciation	<u>(11,864,501)</u>	<u>(889,208)</u>	<u>359,790</u>	<u>-</u>	<u>(12,393,919)</u>
Total capital assets, net	<u>\$ 21,495,704</u>	<u>635,769</u>	<u>(15,723)</u>	<u>-</u>	<u>22,115,750</u>

**Quartz Hill Water District**  
**Management's Discussion and Analysis, continued**  
**For the Years Ended June 30, 2020 and 2019**

**Debt Administration**

In 2020 and 2019, long-term debt decreased by \$165,000 and \$160,000, respectively, due primarily to regular principal payment on the District's outstanding debt. See note 8 for further discussion.

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

	<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2020</u>
Long-term debt:				
Certificate of participation	\$ 7,290,000	-	(165,000)	7,125,000
Less: current portion	<u>(165,000)</u>			<u>(175,000)</u>
Non-current portion	<u>\$ 7,125,000</u>			<u>6,950,000</u>

Changes in long-term debt amount for 2019 were as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2019</u>
Long-term debt:				
Certificate of participation	\$ 7,450,000	-	(160,000)	7,290,000
Less: current portion	<u>(160,000)</u>			<u>(165,000)</u>
Non-current portion	<u>\$ 7,290,000</u>			<u>7,125,000</u>

**Conditions Affecting Current Financial Position**

Management does not foresee any conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 5034 West Avenue L, Quartz Hill, California 93536 or by phone (661) 943-3170.

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# **Basic Financial Statements**

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**Quartz Hill Water District**  
**Statements of Net Position**  
**June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Current assets – unrestricted:</b>		
Cash and cash equivalents (note 2 & 3)	\$ 8,917,269	4,660,166
Investments (note 2 & 3)	3,283,734	3,506,164
Accrued interest receivable	49,137	56,343
Accounts receivable – water sales and services	872,918	747,506
Property tax receivable	24,356	19,727
Prepaid expenses	60,443	25,748
Inventory – materials and supplies	67,608	65,746
Inventory – water (note 4)	760,800	760,800
Long-term assets – due in one year:		
Loan receivable (note 5)	3,130	2,787
<b>Total current assets – unrestricted</b>	<b>14,039,395</b>	<b>9,844,987</b>
<b>Current assets – restricted:</b>		
Cash and cash equivalents – restricted (note 2)	590,126	583,214
<b>Total current assets – restricted</b>	<b>590,126</b>	<b>583,214</b>
<b>Non-current assets:</b>		
Investments (note 2 & 3)	4,154,790	7,020,181
Long-term assets – due after one year:		
Loan receivable (note 5)	94,651	97,545
Capital assets – not being depreciated (note 6)	797,708	1,435,992
Capital assets – being depreciated, net (note 6)	20,939,977	20,679,758
<b>Total non-current assets</b>	<b>25,987,126</b>	<b>29,233,476</b>
<b>Total assets</b>	<b>40,026,521</b>	<b>39,078,463</b>
<b>Deferred outflows of resources:</b>		
Deferred OPEB outflows (note 9)	169,876	170,157
Deferred pension outflows (note 10)	344,615	455,172
<b>Total deferred outflows of resources</b>	<b>\$ 514,491</b>	<b>625,329</b>

Continued on next page

See accompanying notes to the basic financial statements

**Quartz Hill Water District**  
**Statements of Net Position, continued**  
**June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 238,478	271,307
Accrued payroll and employee benefits	91,413	70,994
Customer deposits and unearned revenues	378,204	356,653
Accrued interest payable	82,122	85,583
Long-term liabilities – due in one year:		
Compensated absences (note 7)	49,589	55,355
Certificate-of-participation (note 8)	175,000	165,000
<b>Total current liabilities</b>	<b>1,014,806</b>	<b>1,004,892</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	81,936	75,351
Certificate-of-participation (note 8)	6,950,000	7,125,000
Net OPEB liability (note 9)	3,125,564	3,931,696
Net pension liability (note 10)	459,312	337,369
<b>Total non-current liabilities</b>	<b>10,616,812</b>	<b>11,469,416</b>
<b>Total liabilities</b>	<b>11,631,618</b>	<b>12,474,308</b>
<b>Deferred inflows of resources:</b>		
Deferred OPEB inflows (note 9)	851,465	-
Deferred pension inflows (note 10)	157,163	244,364
<b>Total deferred inflows of resources</b>	<b>1,008,628</b>	<b>244,364</b>
<b>Net position: (note 11)</b>		
Net investment in capital assets	14,612,685	14,825,750
Restricted	590,126	583,214
Unrestricted	13,288,081	12,159,370
<b>Total net position</b>	<b>\$ 28,490,892</b>	<b>27,568,334</b>

See accompanying notes to the basic financial statements

**Quartz Hill Water District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating revenues:</b>		
Water consumption fees	\$ 3,449,215	3,337,186
Monthly water service charges	2,187,020	2,188,829
Connection fees	330	550
Other water service charges	107,023	137,508
<b>Total operating revenues</b>	<b>5,743,588</b>	<b>5,664,073</b>
<b>Operating expenses:</b>		
Water purchases	1,641,159	1,616,991
Pumping plant	234,582	252,496
Transmission and distribution	558,126	680,332
Customer accounts	1,188,457	1,033,675
Administrative and general expenses	893,613	744,271
<b>Total operating expenses</b>	<b>4,515,937</b>	<b>4,327,765</b>
<b>Operating income before depreciation expense</b>	1,227,651	1,336,308
Depreciation expense	(920,911)	(889,208)
<b>Operating income</b>	<b>306,740</b>	<b>447,100</b>
<b>Non-operating revenue(expense):</b>		
<b>Non-operating revenue:</b>		
Property taxes	470,945	462,299
Investment earnings	430,938	542,284
Rental income	60,056	57,120
Gain from sale of capital assets	8,306	38,000
Other non-operating income	30,000	2,500
<b>Total non-operating revenue</b>	<b>1,000,245</b>	<b>1,102,203</b>
<b>Non-operating expense:</b>		
Interest expense – long-term debt	(394,233)	(406,389)
<b>Total non-operating expense</b>	<b>(394,233)</b>	<b>(406,389)</b>
<b>Total non-operating revenue(expense), net</b>	<b>606,012</b>	<b>695,814</b>
<b>Net income before capital contributions</b>	<b>912,752</b>	<b>1,142,914</b>
<b>Capital contributions:</b>		
Contributed capital	9,806	9,806
<b>Total capital contributions</b>	<b>9,806</b>	<b>9,806</b>
<b>Changes in net position</b>	<b>922,558</b>	<b>1,152,720</b>
<b>Net position, beginning of year</b>	<b>27,568,334</b>	<b>26,415,614</b>
<b>Net position, end of year</b>	<b>\$ 28,490,892</b>	<b>27,568,334</b>

See accompanying notes to the basic financial statements

**Quartz Hill Water District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for sales and services	\$ 5,639,727	5,725,472
Cash paid to vendors and suppliers	(3,361,890)	(3,073,018)
Cash paid to employees for salaries and wages	(1,011,282)	(1,007,478)
<b>Net cash provided by operating activities</b>	<b>1,266,555</b>	<b>1,644,976</b>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from property taxes	466,316	462,810
Proceeds from rental income	60,056	57,120
Proceeds from other income	30,000	2,500
<b>Net cash provided by non-capital financing activities</b>	<b>556,372</b>	<b>522,430</b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(544,541)	(1,509,254)
Proceeds from the sale of capital assets	10,001	38,000
Proceeds from capital contributions	9,806	9,806
Principal paid on long-term debt	(165,000)	(160,000)
Interest paid on long-term debt	(397,694)	(405,723)
<b>Net cash used in capital and related financing activities</b>	<b>(1,087,428)</b>	<b>(2,027,171)</b>
<b>Cash flows from investing activities:</b>		
Interest and investment earnings	438,144	295,287
Purchase of securities	(1,000,000)	(759,536)
Proceeds from sale of securities	4,087,821	500,000
Repayment of loan receivable	2,551	2,684
<b>Net cash provided by investing activities</b>	<b>3,528,516</b>	<b>38,435</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,264,015</b>	<b>178,670</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>5,243,380</b>	<b>5,064,710</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,507,395</b>	<b>5,243,380</b>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 8,917,269	4,660,166
Cash and cash equivalents - restricted	590,126	583,214
<b>Total cash and cash equivalents</b>	<b>\$ 9,507,395</b>	<b>5,243,380</b>

Continued on next page

See accompanying notes to the basic financial statements

**Quartz Hill Water District**  
**Statements of Cash Flows, continued**  
**For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ <u>306,740</u>	<u>447,100</u>
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation expense	920,911	889,208
<b>Change in assets, deferred outflows, liabilities, and deferred inflows:</b>		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services	(125,412)	50,369
Prepaid expenses and other deposits	(34,695)	(22,834)
Materials and supplies inventory	(1,862)	23,018
Increase in deferred outflows of resources:		
Deferred OPEB outflows	281	(56,860)
Deferred pension outflows	110,557	187,914
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(32,829)	79,511
Accrued payroll and employee benefits	20,419	(4,108)
Deposits for work-orders	21,551	11,030
Compensated absences	819	15,919
Net OPEB liability	(806,132)	215,286
Net pension liability	121,943	(42,008)
Increase(Decrease) in deferred inflows of resources:		
Deferred OPEB inflows	851,465	-
Deferred pension inflows	<u>(87,201)</u>	<u>(148,569)</u>
Total adjustments	<u>959,815</u>	<u>1,197,876</u>
<b>Net cash provided by operating activities</b>	<b>\$ <u>1,266,555</u></b>	<b><u>1,644,976</u></b>
<b>Non-cash investing, capital, and financing transaction:</b>		
Changes in fair value of investments	\$ <u>139,527</u>	<u>132,991</u>

See accompanying notes to the basic financial statements

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2020 and 2019**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The Quartz Hill Water District (District) was formed March 11, 1954, pursuant to the provisions of the California Water Code section 30000 et seq. The District is a responsible overseer of the resources, assets, and natural environments in order to provide a high quality water supply that is resilient, reliable, and supplied at a fair and equitable rate. The District is a special district governed by a five-member Board of Directors elected by the public at large for a term of four years.

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

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal 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.

**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.

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

**1. Use of Estimates**

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

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

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

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

**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 District and the duration cannot be estimated at this time.

**3. Cash and Cash Equivalents**

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

**4. Investments and Investment Policy**

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

**5. Fair Value Measurement**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity, and other assumptions that are internally generated and cannot be observed in the market.

The District's investment in LAIF is valued at amortized cost and is not subject to the fair value measurement criteria.

**6. Accounts Receivable and Allowance for Uncollectible Accounts**

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

**7. Property Taxes and Assessments**

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

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

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

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

**7. Property Taxes and Assessments, continued**

Property taxes receivable at year-end is related to property taxes collected by the County of Los Angeles, 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

**8. Materials and Supplies**

Materials and supplies consist primarily of water pipe and pipefittings for construction and repair to the District's water treatment and distribution system. Materials and supplies are valued at cost using first-in, first-out basis. Material and supply items are charged to expense at the time the items are consumed.

**9. Restricted Assets**

Certain assets of the District are restricted for use by debt covenants and, accordingly, are shown as restricted assets on the accompanying statements of net position. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

**10. Capital Assets**

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

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

Distribution system	10 to 75 years
General plant	5 to 40 years
Pumping plant and equipment	5 to 40 years
Wells and improvements	10 to 45 years
Reservoirs and tanks	10 to 45 years
Office equipment	5 years

**11. Deferred Outflows of Resources**

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

**12. Unearned Revenue**

Unearned revenue consists of customer deposits held at year-end.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

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

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

**13. Compensated Absences**

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick are recorded when benefits are earned. Cash payment of unused vacation and sick is available to those qualified employees when retired or terminated.

**14. Pensions**

For the purpose of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

- Valuation dates: June 30, 2018 and 2017
- Measurement dates: June 30, 2019 and 2018
- Measurement periods: July 1, 2017 to June 30, 2018 and July 1, 2018 to June 30, 2019

**15. Deferred Inflows of Resources**

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

**16. Net Position**

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

- **Net investment in capital assets component of net position** – consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- **Restricted component of net position** – consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets.
- **Unrestricted component of net position** – 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.

**17. Budgetary Principles**

The District adopts an annual budget typically in June each year to take effect July 1 the following year. The budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The Board approves all budget addition appropriations. Budget integration is employed as a management control device.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(2) Cash and Investments**

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

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 8,917,269	4,660,166
Restricted – cash and cash equivalents	590,126	583,214
Investments	7,438,524	10,526,345
Total	\$ 16,945,919	15,769,725

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

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents		
Deposits with financial institutions	\$ 1,983,929	1,242,470
Money market mutual fund	7,523,466	4,000,910
Total cash and cash equivalents	9,507,395	5,243,380
Investments		
U.S. Government and Government Agency obligations	2,027,470	4,016,924
California Local Agency Investment Fund	524,293	512,239
Certificate of deposits	3,362,368	4,501,513
Corporate bonds	1,524,393	1,495,669
Total investments	7,438,524	10,526,345
Total cash and investments	\$ 16,945,919	15,769,725

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

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

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>	<b>Minimum Credit Quality</b>
U.S. Treasury Securities	5 years	None	None	None
U.S. Government Agency Obligations	5 years	None	None	None
Bankers Acceptances	180 days	None	None	High
Certificates of Deposits	5 years	None	None	Average
Collateralized Time Deposits	1 year	None	Net worth	Average
Commercial Paper	270 days	30%	10%	Prime
Corporate Bonds	5 years	None	None	top 3
Repurchases and Reverse Repurchases	1 year	10% of current	None	None
Negotiable Order of Withdrawal	Open Ended	5%	Net worth	Average

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(2) Cash and Investments, continued**

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits at banking institutions are federally insured up to \$250,000. As of June 30, 2020 and 2019, bank balances totaling \$1,733,929 and \$992,469, respectively, were not insured and collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

***Investment in State Investment Pool***

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

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

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

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(2) Cash and Investments, continued**

***Interest Rate Risk***

Interest rate risk is the risk that the change 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 the change in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

As of June 30, 2020, the District's investments are scheduled to mature as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
U.S. Government and Government Agency obligations	\$ 2,027,470	1,008,100	1,019,370	-
California Local Agency Investment Fund	524,293	524,293	-	-
Certificate of deposits	3,362,368	1,244,355	517,825	1,600,188
Corporate bonds	1,524,393	506,986	1,017,407	-
<b>Total</b>	<b>\$ 7,438,524</b>	<b>3,283,734</b>	<b>2,554,602</b>	<b>1,600,188</b>

As of June 30, 2019, the District's investments are scheduled to mature as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
U.S. Government and Government Agency obligations	\$ 4,016,924	1,998,064	999,640	1,019,220
California Local Agency Investment Fund	512,239	512,239	-	-
Certificate of deposits	4,501,513	995,861	1,242,393	2,263,259
Corporate bonds	1,495,669	-	501,090	994,579
<b>Total</b>	<b>\$ 10,526,345</b>	<b>3,506,164</b>	<b>2,743,123</b>	<b>4,277,058</b>

***Credit Risk***

Generally, 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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the years ended for each investment type.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(2) Cash and Investments, continued**

Credit ratings as of June 30, 2020, were as follows:

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating as of year-end</u>		
			<u>AAAm/A-1+</u> <u>AA/AA+/AA-</u>	<u>A-1/A+</u> <u>A/A-</u>	<u>Unrated</u>
U.S. Government and Government Agency obligations	AAA/Aaa	\$ 2,027,470	2,027,470	-	-
California Local Agency Investment Fund	N/A	524,293	-	-	524,293
Certificate of deposits	N/A	3,362,368	-	-	3,362,368
Corporate bonds	Aaa	1,524,393	-	1,524,393	-
<b>Total</b>		<b>\$ 7,438,524</b>	<b>2,027,470</b>	<b>1,524,393</b>	<b>3,886,661</b>

Credit ratings as of June 30, 2019, were as follows:

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating as of year-end</u>		
			<u>AAAm/A-1+</u> <u>AA/AA+/AA-</u>	<u>A-1/A+</u> <u>A/A-</u>	<u>Unrated</u>
U.S. Government and Government Agency obligations	AAA/Aaa	\$ 4,016,924	4,016,924	-	-
California Local Agency Investment Fund	N/A	512,239	-	-	512,239
Certificate of deposits	N/A	4,501,513	-	-	4,501,513
Corporate bonds	Aaa	1,495,669	-	1,495,669	-
<b>Total</b>		<b>\$ 10,526,345</b>	<b>-</b>	<b>1,495,669</b>	<b>5,013,752</b>

***Concentration of Credit Risk***

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30 are as follows:

<u>Investment</u>	<u>2020</u>	<u>2019</u>
Wells Fargo Bank Company 7/2021 @ 2.5%	\$ 1,017,407	994,579
Wells Fargo Bank Company 3/2021 @ 2.5%	506,986	501,091
Southern California Public Power Authority	1,019,370	1,019,220
University of California CA Revenue	1,008,100	999,640

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(3) Investment at Fair Value Hierarchy**

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2020, are as follows:

Description	June 30, 2020	Fair Value Measurement at Reporting Date using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and Government Agency obligations	\$ 2,027,470	-	2,027,470	-
Certificate of deposits	3,362,368	-	3,362,368	-
Corporate bonds	1,524,393	-	1,524,393	-
	<u>6,914,231</u>	<u>-</u>	<u>6,914,231</u>	<u>-</u>
Investments measured at amortized cost:				
Local Agency Investment Fund	<u>524,293</u>			
Total	<u>\$ 7,438,524</u>			

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2019, are as follows:

Description	December 31, 2019	Fair Value Measurement at Reporting Date using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and Government Agency obligations	\$ 4,016,924	1,998,064	2,018,860	-
Certificate of deposits	4,501,513	-	4,501,513	-
Corporate bonds	1,495,669	-	1,495,669	-
Total	<u>10,014,106</u>	<u>1,998,064</u>	<u>8,016,042</u>	<u>-</u>
Investments measured at amortized cost:				
Local Agency Investment Fund	<u>512,239</u>			
Total	<u>\$ 10,526,345</u>			

**(4) Inventory – Water**

On December 10, 2010 and March 12, 2013, the District entered into an agreement with the Antelope Valley East Kern Water Agency (AVEK) to purchase 3,550 acre feet of water. The inventory of water is stored in the AVEK's water banking facility. Under the agreement, the District expects to purchase water at the current market rates and withdraw water from the facility during dry years at a cost substantially below market rates. As of June 30, 2020 and 2019, inventory of water totaled \$760,800.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(5) Loans Receivable**

Changes in loan receivable for 2020 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2020</u>
Loan receivable				
All American Financial Services	\$ 100,332	-	(2,551)	97,781
Total loan receivable	100,332	-	(2,551)	97,781
Less: current portion	(2,787)			(3,130)
Total non-current portion	\$ 97,545			94,651

Changes in loan receivable for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2019</u>
Loan receivable				
All American Financial Services	\$ 103,016	-	(2,684)	100,332
Total loan receivable	103,016	-	(2,684)	100,332
Less: current portion	(2,684)			(2,787)
Total non-current portion	\$ 100,332			97,545

***All American Financial Services***

On August 2012, the District entered into an agreement with All American Financial Services Company for a 100% interest in a promissory note secured by a deed of trust. The promissory note totaled \$117,000, bearing an interest rate of 3.75%, expiring on July 2042. Principal and interest payment of \$542 are due monthly.

Future payments to be received under the agreement as of June 30, 2020, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 3,130	3,914	7,044
2022	3,004	3,498	6,502
2023	3,119	3,383	6,502
2024	3,238	3,264	6,502
2025	3,361	3,141	6,502
2026-2030	18,830	13,681	32,511
2031-2035	22,707	9,803	32,510
2036-2040	27,382	5,128	32,510
2041-2043	13,010	538	13,548
Total	97,781	46,350	144,131
Current	(3,130)		
Non-current	\$ 94,651		

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(6) Capital Assets**

Change in capital assets for 2020 was as follows:

	<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>2020</u>
Non-depreciable assets:					
Land	\$ 807,514	-	-	(9,806)	797,708
Construction-in-process	628,478	-	(628,478)	-	-
Total non-depreciable assets	<u>1,435,992</u>	<u>-</u>	<u>(628,478)</u>	<u>(9,806)</u>	<u>797,708</u>
Depreciable assets:					
Distribution systems	11,195,228	-	-	(929,212)	10,266,016
General plant	3,733,494	310,376	-	(47,842)	3,996,028
Pumping plant and equipment	1,207,720	73,997	-	(30,273)	1,251,444
Wells and improvements	5,582,935	566,582	-	(2,614,702)	3,534,815
Reservoirs and tanks	5,129,658	119,950	-	3,577,170	8,826,778
Buildings and structures	4,660,887	-	-	-	4,660,887
Office furniture and equipment	423,246	-	-	78,115	501,361
Tools and equipment	193,424	59,394	(2,748)	(23,450)	226,620
Vehicles	947,085	42,720	(31,449)	-	958,356
Total depreciable assets	<u>33,073,677</u>	<u>1,173,019</u>	<u>(34,197)</u>	<u>9,806</u>	<u>34,222,305</u>
Accumulated depreciation:					
Distribution systems	(4,406,102)	(196,414)	-	728,947	(3,873,569)
General plant	(919,508)	(183,787)	-	22,986	(1,080,309)
Pumping plant and equipment	(395,521)	(34,831)	-	39,351	(391,001)
Wells and improvements	(3,089,950)	(178,572)	-	1,303,107	(1,965,415)
Reservoirs and tanks	(1,840,924)	(125,838)	-	(2,055,504)	(4,022,266)
Buildings and structures	(465,071)	(116,522)	-	-	(581,593)
Office furniture and equipment	(361,397)	(27,968)	-	(62,337)	(451,702)
Tools and equipment	(88,884)	(10,972)	1,053	23,450	(75,353)
Vehicles	(826,562)	(46,007)	31,449	-	(841,120)
Total accumulated depreciation	<u>(12,393,919)</u>	<u>(920,911)</u>	<u>32,502</u>	<u>-</u>	<u>(13,282,328)</u>
Total depreciable assets, net	<u>20,679,758</u>	<u>252,108</u>	<u>(1,695)</u>	<u>9,806</u>	<u>20,939,977</u>
Total capital assets, net	<u>\$ 22,115,750</u>	<u>252,108</u>	<u>(630,173)</u>	<u>-</u>	<u>21,737,685</u>

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(6) Capital Assets, continued**

Change in capital assets for 2019 was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance 2019</u>
Non-depreciable assets:					
Land	\$ 807,514	-	-	-	807,514
Construction-in-process	46,538	597,663	(15,723)	-	628,478
Total non-depreciable assets	<u>854,052</u>	<u>597,663</u>	<u>(15,723)</u>	<u>-</u>	<u>1,435,992</u>
Depreciable assets:					
Distribution systems	11,195,228	-	-	-	11,195,228
General plant	3,420,872	312,622	-	-	3,733,494
Pumping plant and equipment	1,053,922	153,798	-	-	1,207,720
Wells and improvements	5,582,935	-	-	-	5,582,935
Reservoirs and tanks	4,806,183	323,475	-	-	5,129,658
Buildings and structures	4,660,887	-	-	-	4,660,887
Office furniture and equipment	423,246	-	-	-	423,246
Tools and equipment	360,448	100,335	(267,359)	-	193,424
Vehicles	1,002,432	37,084	(92,431)	-	947,085
Total depreciable assets	<u>32,506,153</u>	<u>927,314</u>	<u>(359,790)</u>	<u>-</u>	<u>33,073,677</u>
Accumulated depreciation:					
Distribution systems	(4,207,281)	(198,821)	-	-	(4,406,102)
General plant	(750,365)	(169,143)	-	-	(919,508)
Pumping plant and equipment	(364,721)	(30,800)	-	-	(395,521)
Wells and improvements	(2,914,100)	(175,850)	-	-	(3,089,950)
Reservoirs and tanks	(1,734,922)	(106,002)	-	-	(1,840,924)
Buildings and structures	(348,549)	(116,522)	-	-	(465,071)
Office furniture and equipment	(332,071)	(29,326)	-	-	(361,397)
Tools and equipment	(346,816)	(9,427)	267,359	-	(88,884)
Vehicles	(865,676)	(53,317)	92,431	-	(826,562)
Total accumulated depreciation	<u>(11,864,501)</u>	<u>(889,208)</u>	<u>359,790</u>	<u>-</u>	<u>(12,393,919)</u>
Total depreciable assets, net	<u>20,641,652</u>	<u>38,106</u>	<u>-</u>	<u>-</u>	<u>20,679,758</u>
Total capital assets, net	<u>\$ 21,495,704</u>	<u>635,769</u>	<u>(15,723)</u>	<u>-</u>	<u>22,115,750</u>

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(7) Compensated Absences**

Change in compensated absences for 2020 was as follows:

<u>Balance 2019</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2020</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 130,706	115,359	(114,540)	131,525	49,589	81,936

Change in compensated absences for 2019 was as follows:

<u>Balance 2018</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2019</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 114,787	114,155	(98,236)	130,706	55,355	75,351

**(8) Long-term Debt**

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

	<u>Balance 2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2020</u>
Certificate of participation:				
Revenue Certificate of Participation Series 2011	\$ 7,290,000	-	(165,000)	7,125,000
Total certificate of participation	7,290,000	-	(165,000)	7,125,000
Current portion	(165,000)			(175,000)
Non-current portion	\$ 7,125,000			6,950,000

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

	<u>Balance 2018</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2019</u>
Certificate of participation:				
Revenue Certificate of Participation Series 2011	\$ 7,450,000	-	(160,000)	7,290,000
Total certificate of participation	7,450,000	-	(160,000)	7,290,000
Current portion	(160,000)			(165,000)
Non-current portion	\$ 7,290,000			7,125,000

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(8) Long-term Debt**

***Revenue Certificate of Participation Series 2011***

On April 6, 2011, the District issued the Quartz Hill Water District Revenue certificate of Participation Series 2011 in the amount of \$8,400,000 for the construction of certain capital improvements to the District's water infrastructures. The certificate of participation bears an interest rate ranging from 3.00% to 5.75%, with principal due annually on November 1 of each year; and interest due semi-annually on April 15 and October 15 of each year. The certificate of participation matures on November 1, 2042.

Annual debt service requirements for the certificate of participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 175,000	390,250	565,250
2022	185,000	381,919	566,919
2023	190,000	372,775	562,775
2024	200,000	363,025	563,025
2025	210,000	352,775	562,775
2026-2030	1,255,000	1,572,763	2,827,763
2031-2035	1,655,000	1,173,469	2,828,469
2036-2040	2,185,000	635,081	2,820,081
2041-2042	<u>1,070,000</u>	<u>62,388</u>	<u>1,132,388</u>
Total	7,125,000	<u>5,304,445</u>	<u>12,429,445</u>
Current	<u>(175,000)</u>		
Non-current	<u>\$ 6,950,000</u>		

**(9) Other Post Employment Benefit Obligation**

***Plan Description***

The District's defined benefit OPEB plan (Plan) provides OPEB for all employees that satisfy the plan's eligibility requirements. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Board of Directors has the authority to establish and amend the benefit terms and financing requirements of the Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

***Benefits Provided***

The Plan provides medical coverage currently provided through ACWA-JPA. Current employment agreements provide for the following:

- Tier 1 – consists of employees hired and retired on or before January 1, 2013. These retirees are eligible to receive a lifetime medical benefit of 100% of the retiree-only medical premium for any plan provided by the District. Coverage must be transitioned to a Supplemental plan once eligible for coverage under Medicare.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(9) Other Post Employment Benefit Obligation, continued**

*Benefits Provided, continued*

- Tier 2 – consists of employees hired on or before January 1, 2013, but retired after this date. To qualify for retiree medical coverage and benefits, the employee must retire from the District at age 50 or older and have been a full time employee of the District while employed. These retirees are eligible to receive a lifetime medical benefit of 100% of the retiree-only medical premium, not to exceed the premium for the Anthem Blue Cross Advantage Plan. Coverage must be transitioned to a Supplemental plan once eligible for coverage under Medicare.
- Tier 3 – consists of employees hired after January 1, 2013. To qualify for retiree medical coverage and benefits, these employees must retire from the District at age 55 or older and have been a full time employee of the District for at least 5 years. These retirees are eligible to receive a lifetime medical benefit equal to a vested percentage of the retiree-only medical premium for the Anthem Blue Cross Advantage Plan. Coverage must be transitioned to a Supplemental plan once eligible for coverage under Medicare.

*Employees Covered by Benefit Terms*

At June 30, the following employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	8	8
Active employees	11	11
Total plan membership	19	19

*Contributions*

The District will pay the cost of the post-employment benefit plan based on the hired date and the retirement date. The District funds the plan on a pay-as-you-go basis.

*Actuarial Assumptions and Other Inputs*

The total OPEB liability in the June 30, 2020 and 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2020: 2.50% per year 2018: 2.75% per year
Salary increases	2020: 3.00% per year 2018: 3.25% per year
Discount rate	2020: 2.66% per year 2018: 2.92% per year
Healthcare cost trend	2020: 5.40% effective January 1, 2021, and fluctuates down to 4.00% by year 2076.  2018: 8.00% effective January 1, 2019, and decrease 0.50% per year of each employee's retirement, remaining constant thereafter.

The discount rate was based on the Standards & Poor Municipal Bond 20 Year High Grade Index.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(9) Other Post Employment Benefit Obligation, continued**

*Actuarial Assumptions and Other Inputs, continued*

As of June 30, 2020, the mortality rates used were CalPERS' published rates, adjusted to back out 15 years of Scale MP 2016 to central year 2015.

Demographic actuarial assumptions used in valuation are based on the 2017 experience study of the California Public Employees Retirement system using data from 1997 to 2015, except for a different basis used to project future mortality improvements.

As of June 30, 2019, the mortality rates used were CalPERS' published rates backing out 20 years of Scale BB to central year 2008, then projected using the MacLeod Watts Scale 2017 applied generationally from 2008.

Demographic actuarial assumptions used in valuation are based on the 2014 experience study of the California Public Employees Retirement system using data from 1997 to 2011, except for a different basis used to project future mortality improvements.

*Changes in the Total OPEB Liability*

During the years ended June 30, changes in total OPEB liability was as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 3,931,696	3,716,410
Changes for the year:		
Service cost	112,832	105,118
Interest	111,603	110,325
Employer contributions	(88,871)	(86,572)
Differences between expected and actual experience	(975,225)	-
Changes in assumptions or other inputs	<u>33,529</u>	<u>86,415</u>
Net change	<u>(806,132)</u>	<u>215,286</u>
Balance, end of year	\$ <u>3,125,564</u>	<u>3,931,696</u>

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

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

As of June 30, 2020, the sensitivity of the total OPEB liability to changes in discount rate are as follows:

	<u>Discount Rate</u> <u>1% Lower</u>	<u>Valuation</u> <u>Discount Rate</u>	<u>Discount Rate</u> <u>1% Higher</u>
Total OPEB liability	\$ <u>3,717,511</u>	<u>3,125,564</u>	<u>2,658,536</u>

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(9) Other Post Employment Benefit Obligation, continued**

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate, continued*

As of June 30, 2019, the sensitivity of the total OPEB liability to changes in discount rate are as follows:

	<b>Discount Rate 1% Lower</b>	<b>Valuation Discount Rate</b>	<b>Discount Rate 1% Higher</b>
Total OPEB liability	\$ 4,698,727	3,931,696	3,332,283

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates

As of June 30, 2020, the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate:

	<b>Trend 1% Lower</b>	<b>Valuation Trend</b>	<b>Trend 1% Higher</b>
Total OPEB liability	\$ 2,609,390	3,125,564	3,801,263

As of June 30, 2019, the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate:

	<b>Trend 1% Lower</b>	<b>Valuation Trend</b>	<b>Trend 1% Higher</b>
Total OPEB liability	\$ 3,228,758	3,931,696	4,919,654

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

For the years ended June 30, 2020 and 2019, the District recognized an OPEB expense of \$134,485 and \$244,998, respectively. As of June 30, the District's deferred outflows of resources and deferred inflows of resources related OPEB were as follows:

	<b>2020</b>		<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change of assumptions	\$ 169,876	-	170,157	-
Difference between expected and actual experience	-	(851,465)	-	-
Total	\$ 169,876	(851,465)	170,157	-

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(9) Other Post Employment Benefit Obligation, continued**

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, continued*

As of June 30, 2020, deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<b>Fiscal Year</b>	<b>Deferred Net</b>
<b>Ending</b>	<b>Outflows(Inflows)</b>
<b>June 30,</b>	<b>of Resources</b>
<hr/>	<hr/>
2021	\$ (89,950)
2022	(89,950)
2023	(89,950)
2024	(89,950)
2025	(101,351)
Thereafter	(220,438)

**(10) Defined Benefit Pension Plan**

*Plan Description*

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

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective June 30, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(10) Defined Benefit Pension Plan, continued**

*Benefits Provided, continued*

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous risk pool in effect at June 30, 2020 and 2019, are summarized as follows:

	<u>Classic</u>	<u>PEPRA</u>
	Prior to	On or after
	January 1,	January 1,
	<u>2013</u>	<u>2013</u>
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	
Benefit payments	monthly for life	
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.4%	1.1% to 2.4%
2020 required employee contribution rates	7.00%	7.25%
2020 required employer contribution rates	11.12%	7.19%
2019 required employee contribution rates	6.90%	6.50%
2019 required employer contribution rates	10.41%	7.38%

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>2020</u>	<u>2019</u>
Contributions – employer	\$ <u>102,644</u>	<u>85,598</u>

*Net Pension Liability*

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

	<u>2020</u>	<u>2019</u>
Proportionate share of net pension liability	\$ <u>459,312</u>	<u>337,369</u>

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(10) Defined Benefit Pension Plan, continued**

*Net Pension Liability, continued*

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2020 and 2019, the net pension liability of the Plan is measured as of June 30, 2019 and 2018, respectively (the measurement dates). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017 (the valuation dates), rolled forward to measurement dates June 30, 2019 and 2018, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of the measurement dates June 30, 2019 and 2018, was as follows:

	<b>Proportionate Share</b>
Proportion – June 30, 2017	0.00383 %
Change in proportion	(0.00033)
Proportion – June 30, 2018	0.00350
Change in proportion	0.00098
Proportion – June 30, 2019	0.00448 %

*Deferred Outflows(Inflows) of Resources Related to Pensions*

For the years ended June 30, 2020 and 2019, the District recognized pension expense of \$259,738 and \$99,981, respectively.

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

<b>Description</b>	<b>2020</b>		<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 114,439	-	102,644	-
Differences between actual and expected experience	29,429	-	8,539	-
Change in assumptions	14,138	-	29,035	-
Net difference between projected and actual earnings on plan investments	-	(8,030)	1,668	-
Adjustment due to changes in proportions and difference in employer contributions	186,609	(149,133)	313,286	(244,364)
Total	\$ 344,615	(157,163)	455,172	(244,364)

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(10) Defined Benefit Pension Plan, continued**

*Deferred Outflows(Inflows) of Resources Related to Pensions, continued*

As of June 30, 2020 and 2019, the District reported \$114,439 and \$102,644, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date. Pension contributions subsequent to the measurement dates for the years ended June 30, 2020 and 2019, will be recognized as a reduction of the net pension liability for the years ended June 30, 2021 and June 30, 2020, respectively.

As of June 30, 2020, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year</b>	<b>Deferred Net</b>
<b>Ending</b>	<b>Outflows(Inflows)</b>
<b>June 30,</b>	<b>of Resources</b>
2021	\$ 53,256
2022	18,998
2023	(864)
2024	1,623

***Actuarial Assumptions***

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

Valuation dates	June 30, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increase	Varies by entry age and service
Mortality Table*	Derived using CalPERS membership data
Period upon which actuarial Experience survey assumptions were based	1997 – 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

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

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(10) Defined Benefit Pension Plan, continued**

*Actuarial Assumptions, continued*

On December 21, 2016, the Board lowered the discount rate for the PERF C for funding purposes from 7.50% to 7.00% percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations.

On December 19, 2017, the Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumption. These new assumptions are incorporated into the June 30, 2017 actuarial valuations.

**Discount Rate**

The discount rate used to measure the total pension liability as of June 30, 2020 and 2019, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Years 11+</u>
Global Equity	50.00 %	4.80 %	5.38 %
Global Fixed Income	28.00	1.00	2.62
Private Equity	8.00	6.30	7.23
Real Asset	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
Total	<u>100.00 %</u>		

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(10) Defined Benefit Pension Plan, 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 the Plan, calculated using the discount rate for the 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.

As of June 30, 2020, the sensitivity of the proportionate share of the net pension liability to changes in the discount rate are as follows:

	<b>Discount Rate - 1%</b>	<b>Current Discount Rate</b>	<b>Discount Rate + 1%</b>
	<b>6.15%</b>	<b>7.15%</b>	<b>8.15%</b>
District's net pension liability	\$ <u>1,204,584</u>	<u>459,312</u>	<u>(155,857)</u>

As of June 30, 2019, the sensitivity of the proportionate share of the net pension liability to changes in the discount rate are as follows:

	<b>Discount Rate - 1%</b>	<b>Current Discount Rate</b>	<b>Discount Rate + 1%</b>
	<b>6.15%</b>	<b>7.15%</b>	<b>8.15%</b>
District's net pension liability	\$ <u>1,056,651</u>	<u>337,369</u>	<u>(256,387)</u>

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 44 and 45 for the Required Supplementary Information.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(11) Net Position**

The balance at June 30, consists of the following:

	<b>2020</b>	<b>2019</b>
Net investment in capital assets:		
Capital assets, net	\$ 21,737,685	22,115,750
Certificate of participation, current	(175,000)	(165,000)
Certificate of participation, non-current	(6,950,000)	(7,125,000)
Total investment in capital assets	14,612,685	14,825,750
Restricted net position:		
Cash and cash equivalent - restricted	590,126	583,214
Total restricted net position	590,126	583,214
Unrestricted net position:		
Non-spendable net position:		
Inventory of materials and supplies	828,408	826,546
Prepaid expenses	60,443	25,748
Total non-spendable net position	888,851	852,294
Spendable net position - undesignated:	12,399,230	11,307,076
Total unrestricted net position	13,288,081	12,159,370
Total net position	\$ 28,490,892	27,568,334

**(12) Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2020, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General liability: coverage includes commercial general liability, contractual liability, products/completed operations occurrence, and excess/umbrella liability with limits of \$1 million per occurrence and \$2 million in the aggregate. The ACWA JPIA purchases additional excess coverage totaling \$1 million in excess of the aggregate.
- Auto liability: coverage includes owned autos, hired autos, and non-owned autos with a limit of \$1 million.
- Workers' compensation: coverage includes workers' compensation up to the statutory limits; and employer's liability with limits of \$2 million per accident and \$2 million for each disease employee with a coverage limit of \$2 million.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(12) Risk Management, continued**

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ended June 30, 2020. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR or claims payable as of June 30, 2020 and 2019.

**(13) 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.

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.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

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

***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.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(13) 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.

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

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

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

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(13) 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.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(13) 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.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(13) 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.

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

**(14) 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 that the ultimate outcome of such matters, if any, will not materially affect its financial conditions.

**Quartz Hill Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2020 and 2019**

**(15) Subsequent Events**

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of October 15, 2020, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

## **Required Supplementary Information**

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**Quartz Hill Water District**  
**Schedules of the District's Proportionate Share of the Net Pension Liability**  
**As of June 30, 2020**  
**Last Ten Years\***

Description	Measurement Dates					
	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's proportion of the net pension liability	0.00448%	0.00350%	0.00383%	0.00305%	0.00969%	0.01041%
District's proportionate share of the net pension liability	\$ 459,312	337,369	379,377	264,342	664,898	647,499
District's covered-employee payroll	\$ 763,240	891,515	857,605	876,622	846,211	821,564
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.18%	37.84%	44.24%	30.15%	78.57%	78.81%
Plan's fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%	79.82%

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

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

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

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

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

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

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

**Quartz Hill Water District**  
**Schedules of Pension Plan Contributions**  
**As of June 30, 2020**  
**Last Ten Years\***

<u>Description</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially determined contribution	\$ 114,439	102,644	85,598	81,899	96,221	103,549
Contributions in relation to the actuarially determined contribution	<u>(114,439)</u>	<u>(102,644)</u>	<u>(85,598)</u>	<u>(81,899)</u>	<u>(766,284)</u>	<u>(103,549)</u>
Contribution deficiency(excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(670,063)</u>	<u>-</u>
District's covered payroll	\$ 941,620	763,240	891,515	857,605	876,622	846,211
Contribution's as a percentage of covered-employee payroll	<u>12.15%</u>	<u>13.45%</u>	<u>9.60%</u>	<u>9.55%</u>	<u>10.98%</u>	<u>-</u>

**Notes to the Schedules of Pension Plan Contributions**

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

**Quartz Hill Water District**  
**Schedules of the Change in the District's Total OPEB Liability and Related Ratios**  
**For the Year Ended June 30, 2020**  
**Last Ten Years\***

**Other Post-Employment Benefits Payable**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 112,832	105,118	95,654
Interest	111,603	110,325	110,268
Difference between expected and actual experience	(975,225)	-	-
Changes of assumptions or other inputs	33,529	86,415	131,111
Benefit payments	<u>(88,871)</u>	<u>(86,572)</u>	<u>(95,805)</u>
Net change in total OPEB liability	(806,132)	215,286	241,228
Total OPEB liability – beginning	<u>3,931,696</u>	<u>3,716,410</u>	<u>3,475,182</u>
Total OPEB liability – ending	<u>\$ 3,125,564</u>	<u>3,931,696</u>	<u>3,716,410</u>
Covered-employee payroll	<u>\$ 1,030,141</u>	<u>1,015,373</u>	<u>880,698</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>303.41%</u>	<u>387.22%</u>	<u>421.98%</u>

**Note to Schedule:**

***Change in Benefit Terms*** – There were no change in benefit terms for the measurement period ended June 30, 2020.

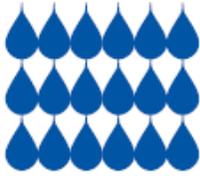
***Change in Assumptions*** – Changes reflected in the current measurement period are as follows:

Discount rate	Decreased from 2.79% to 2.66% per year
Demographic assumptions	Assumed mortality, termination, and retirement rates were updated from those provided in the 2014 experience study report to those provided in the 2017 experience study report of CalPERS.
Mortality improvement	The mortality improvement scale was updated from MacLeod Watts Scale 2017 to MacLeod Watts Scale 2020, reflecting continued updates in available information.
Pre-retirement mortality	Due to relatively small size of the plan and the low likelihood of an employee's death prior to retirement, we removed our preretirement mortality assumption.
General inflation rate	Decreased from 2.75% to 2.50% per year
Salary increase	Decreased from 3.25% to 3.00% per year
Medical trend	Updated to use the Getzen healthcare trend model sponsored by the Society of Actuaries
Excise tax on high cost coverage	We excluded the excise tax from the valuation results due to the December 2019 repeal of this tax.

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# **Report on Internal Controls and Compliance**

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

Board of Directors  
Quartz Hill Water District  
Quartz Hill, California

We have audited, in accordance with 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 Quartz Hill Water District (District), which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2020.

### ***Internal Control Over Financial Reporting***

In planning and performing our audits, 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
October 15, 2020