



**Annual Financial Report
For the Fiscal Years Ended June 30, 2021 and 2020**



Board of Directors as of June 30, 2021

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allen G. Flick, Sr.	President	2022
Sheldon Carter	Vice President	2024
Rod Holtz	Director	2022
Drew Mercy	Director	2022
Lance Pierson	Director	2024

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

Quartz Hill Water District
Annual Financial Report
For the Years Ended June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 43 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 November 18, 2021, 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
November 18, 2021

Quartz Hill Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

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, 2021 and 2020. 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 2021, the District's net position increased 1.70% or \$483,264 to \$28,974,156 as a result of ongoing operations and capital contributions. 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 2021, the District's operating revenues increased 8.34% or \$478,738 to \$6,222,326. In 2020, the District's operating revenues increased 1.40% or \$79,515 to \$5,743,588.
- In 2021, the District's non-operating revenues decreased 32.43% or \$324,357 to \$675,888. In 2020, the District's non-operating revenues decreased 9.25% or \$101,958 to \$1,000,245.
- In 2021, the District's total operating expenses increased 12.09% or \$657,221 to \$6,094,069; which includes increases of \$624,775 in other operating expenses to \$5,140,712 and \$32,446 in depreciation expense to \$953,357. 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 2021, the District's non-operating expenses decreased 1.07% or \$4,234 to \$389,999. In 2020, the District's non-operating expenses decreased 2.99% or \$12,156 to \$394,233.

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, 2021 and 2020

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 \$28,974,156 and \$28,490,892 as of June 30, 2021 and 2020, respectively.

Condensed Statements of Net Position

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Assets:					
Current assets	\$ 16,895,090	14,629,521	2,265,569	10,428,201	4,201,320
Non-current assets	3,400,879	4,249,441	(848,562)	7,117,726	(2,868,285)
Capital assets, net	<u>20,901,727</u>	<u>21,737,685</u>	<u>(835,958)</u>	<u>22,115,750</u>	<u>(378,065)</u>
Total assets	<u>41,197,696</u>	<u>40,616,647</u>	<u>581,049</u>	<u>39,661,677</u>	<u>954,970</u>
Deferred outflows of resources	<u>668,881</u>	<u>514,491</u>	<u>154,390</u>	<u>625,329</u>	<u>(110,838)</u>
Liabilities:					
Current liabilities	1,128,680	1,014,806	113,874	1,004,892	9,914
Non-current liabilities	<u>10,865,794</u>	<u>10,616,812</u>	<u>248,982</u>	<u>11,469,416</u>	<u>(852,604)</u>
Total liabilities	<u>11,994,474</u>	<u>11,631,618</u>	<u>362,856</u>	<u>12,474,308</u>	<u>(842,690)</u>
Deferred inflows of resources:	<u>897,947</u>	<u>1,008,628</u>	<u>(110,681)</u>	<u>244,364</u>	<u>764,264</u>
Net position:					
Net investment in capital assets	13,951,727	14,612,685	(660,958)	14,825,750	(213,065)
Restricted	590,193	590,126	67	583,214	6,912
Unrestricted	<u>14,432,236</u>	<u>13,288,081</u>	<u>1,144,155</u>	<u>12,159,370</u>	<u>1,128,711</u>
Total net position	<u>\$ 28,974,156</u>	<u>28,490,892</u>	<u>483,264</u>	<u>27,568,334</u>	<u>922,558</u>

Quartz Hill Water District
Management's Discussion and Analysis, continued
For the Years Ended June 30, 2021 and 2020

Statement of Net Position, continued

A portion of the District's net position, 48.15% and 51.29% as of June 30, 2021 and 2020, respectively, reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal years 2021 and 2020, the District showed a positive balance in its unrestricted net position of \$14,432,236 and \$13,288,081, 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 1.70% or \$483,264 from \$28,490,892 to \$28,974,156, as a result of ongoing operations and capital contributions for the year ended June 30, 2021; and 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.

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

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 6,222,326	5,743,588	478,738	5,664,073	79,515
Non-operating revenues	675,888	1,000,245	(324,357)	1,102,203	(101,958)
Total revenues	<u>6,898,214</u>	<u>6,743,833</u>	<u>154,381</u>	<u>6,766,276</u>	<u>(22,443)</u>
Expenses:					
Operating expenses	5,140,712	4,515,937	624,775	4,327,765	188,172
Depreciation expense	953,357	920,911	32,446	889,208	31,703
Non-operating expenses	389,999	394,233	(4,234)	406,389	(12,156)
Total expenses	<u>6,484,068</u>	<u>5,831,081</u>	<u>652,987</u>	<u>5,623,362</u>	<u>207,719</u>
Net income before capital contributions	414,146	912,752	(498,606)	1,142,914	(230,162)
Capital contributions	<u>69,118</u>	<u>9,806</u>	<u>59,312</u>	<u>9,806</u>	<u>-</u>
Changes in net position	483,264	922,558	(439,294)	1,152,720	(230,162)
Net position, beginning of year	<u>28,490,892</u>	<u>27,568,334</u>	<u>922,558</u>	<u>26,415,614</u>	<u>1,152,720</u>
Net position, end of year	<u>\$ 28,974,156</u>	<u>28,490,892</u>	<u>483,264</u>	<u>27,568,334</u>	<u>922,558</u>

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

In 2021, the District's total revenues increased 2.29% or \$154,381 to \$6,898,214. The District's operating revenues increased 8.34% or \$478,738 to \$6,222,326 from operations. The District's non-operating revenues decreased 32.43% or \$324,357 to \$675,888, due primarily to a decrease of \$388,512 in investment earnings.

Quartz Hill Water District
Management's Discussion and Analysis, continued
For the Years Ended June 30, 2021 and 2020

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

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.

In 2021, the District's total operating expenses, including depreciation expense, increased 12.09% or \$657,221 to \$6,094,069 due primarily to increases of \$50,999 in customer accounts, \$189,691 in water purchases, \$127,531 in transmission and distribution and \$193,913 in administrative and general expenses.

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 2021, the District's non-operating expenses decreased 1.07% or \$4,234. In 2020, the District's non-operating expenses decreased 2.99% or \$12,156.

Capital Asset Administration

At the end of years 2021 and 2020, the District's investment in capital assets amounted to \$20,901,727 and \$21,737,685, 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 2021 were as follows:

	<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>2021</u>
Capital assets:					
Non-depreciable assets	\$ 797,708	50,000	-	-	847,708
Depreciable assets	34,222,305	67,399	(6,746)	-	34,282,958
Accumulated depreciation	(13,282,328)	(953,357)	6,746	-	(14,228,939)
Total capital assets, net	<u>\$ 21,737,685</u>	<u>(835,958)</u>	<u>-</u>	<u>-</u>	<u>20,901,727</u>

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	(12,393,919)	(920,911)	32,502	-	(13,282,328)
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
Management's Discussion and Analysis, continued
For the Years Ended June 30, 2021 and 2020

Debt Administration

In 2021 and 2020, long-term debt decreased by \$175,000 and \$165,000, 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 2021 were as follows:

	<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2021</u>
Long-term debt:				
Certificate of participation	\$ 7,125,000	-	(175,000)	6,950,000
Less: current portion	<u>(175,000)</u>			<u>(185,000)</u>
Non-current portion	<u>\$ 6,950,000</u>			<u>6,765,000</u>

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>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Current assets – unrestricted:		
Cash and cash equivalents (note 2 & 3)	\$ 11,358,192	8,917,269
Investments (note 2 & 3)	3,038,896	3,283,734
Accrued interest receivable	38,718	49,137
Accounts receivable – water sales and services	981,386	872,918
Property tax receivable	14,916	24,356
Prepaid expenses	41,377	60,443
Inventory – materials and supplies	67,608	67,608
Inventory – water (note 4)	760,800	760,800
Long-term assets – due in one year:		
Loan receivable (note 5)	3,004	3,130
Total current assets – unrestricted	<u>16,304,897</u>	<u>14,039,395</u>
Current assets – restricted:		
Cash and cash equivalents – restricted (note 2)	590,193	590,126
Total current assets – restricted	<u>590,193</u>	<u>590,126</u>
Non-current assets:		
Investments (note 2 & 3)	3,309,232	4,154,790
Long-term assets – due after one year:		
Loan receivable (note 5)	91,647	94,651
Capital assets – not being depreciated (note 6)	847,708	797,708
Capital assets – being depreciated, net (note 6)	20,054,019	20,939,977
Total non-current assets	<u>24,302,606</u>	<u>25,987,126</u>
Total assets	<u>40,607,503</u>	<u>40,026,521</u>
Deferred outflows of resources:		
Deferred OPEB outflows (note 9)	328,310	169,876
Deferred pension outflows (note 10)	340,571	344,615
Total deferred outflows of resources	<u>\$ 668,881</u>	<u>514,491</u>

Continued on next page

See accompanying notes to the basic financial statements

Quartz Hill Water District
Statements of Net Position, continued
June 30, 2021 and 2020

	2021	2020
Current liabilities:		
Accounts payable and accrued expenses	\$ 328,113	238,478
Accrued payroll and employee benefits	56,888	91,413
Customer deposits and unearned revenues	424,012	378,204
Accrued interest payable	80,482	82,122
Long-term liabilities – due in one year:		
Compensated absences (note 7)	54,185	49,589
Certificate-of-participation (note 8)	185,000	175,000
Total current liabilities	1,128,680	1,014,806
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	88,408	81,936
Certificate-of-participation (note 8)	6,765,000	6,950,000
Net OPEB liability (note 9)	3,419,003	3,125,564
Net pension liability (note 10)	593,383	459,312
Total non-current liabilities	10,865,794	10,616,812
Total liabilities	11,994,474	11,631,618
Deferred inflows of resources:		
Deferred OPEB inflows (note 9)	727,705	851,465
Deferred pension inflows (note 10)	170,242	157,163
Total deferred inflows of resources	897,947	1,008,628
Net position: (note 11)		
Net investment in capital assets	13,951,727	14,612,685
Restricted	590,193	590,126
Unrestricted	14,432,236	13,288,081
Total net position	\$ 28,974,156	28,490,892

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, 2021 and 2020

	2021	2020
Operating revenues:		
Water consumption fees	\$ 3,959,383	3,449,215
Monthly water service charges	2,182,128	2,187,020
Connection fees	1,870	330
Other water service charges	78,945	107,023
Total operating revenues	6,222,326	5,743,588
Operating expenses:		
Water purchases	1,830,850	1,641,159
Pumping plant	297,223	234,582
Transmission and distribution	685,657	558,126
Customer accounts	1,239,456	1,188,457
Administrative and general expenses	1,087,526	893,613
Total operating expenses	5,140,712	4,515,937
Operating income before depreciation expense	1,081,614	1,227,651
Depreciation expense	(953,357)	(920,911)
Operating income	128,257	306,740
Non-operating revenue(expense):		
Non-operating revenue:		
Property taxes	506,425	470,945
Investment earnings	42,426	430,938
Rental income	114,537	60,056
Gain from sale of capital assets	-	8,306
Other non-operating income	12,500	30,000
Total non-operating revenue	675,888	1,000,245
Non-operating expense:		
Interest expense – long-term debt	(389,999)	(394,233)
Total non-operating expense	(389,999)	(394,233)
Total non-operating revenue(expense), net	285,889	606,012
Net income before capital contributions	414,146	912,752
Capital contributions:		
Contributed capital	69,118	9,806
Total capital contributions	69,118	9,806
Changes in net position	483,264	922,558
Net position, beginning of year	28,490,892	27,568,334
Net position, end of year	\$ 28,974,156	28,490,892

See accompanying notes to the basic financial statements

Quartz Hill Water District
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers for sales and services	\$ 6,159,666	5,639,727
Cash paid to vendors and suppliers	(3,842,604)	(3,361,890)
Cash paid to employees for salaries and wages	(1,050,425)	(1,011,282)
Net cash provided by operating activities	1,266,637	1,266,555
Cash flows from non-capital financing activities:		
Proceeds from property taxes	515,865	466,316
Proceeds from rental income	114,537	60,056
Proceeds from other income	12,500	30,000
Net cash provided by non-capital financing activities	642,902	556,372
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(117,399)	(544,541)
Proceeds from the sale of capital assets	-	10,001
Proceeds from capital contributions	69,118	9,806
Principal paid on long-term debt	(175,000)	(165,000)
Interest paid on long-term debt	(391,639)	(397,694)
Net cash used in capital and related financing activities	(614,920)	(1,087,428)
Cash flows from investing activities:		
Interest and investment earnings	52,845	438,144
Purchase of securities	(1,000,000)	(1,000,000)
Proceeds from sale of securities	2,090,396	4,087,821
Repayment of loan receivable	3,130	2,551
Net cash provided by investing activities	1,146,371	3,528,516
Net increase in cash and cash equivalents	2,440,990	4,264,015
Cash and cash equivalents, beginning of year	9,507,395	5,243,380
Cash and cash equivalents, end of year	\$ 11,948,385	9,507,395
Reconciliation of cash and cash equivalents to the statements of net position:		
	2021	2020
Cash and cash equivalents	\$ 11,358,192	8,917,269
Cash and cash equivalents - restricted	590,193	590,126
Total cash and cash equivalents	\$ 11,948,385	9,507,395

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>128,257</u>	<u>306,740</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	953,357	920,911
Change in assets, deferred outflows, liabilities, and deferred inflows:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services	(108,468)	(125,412)
Prepaid expenses and other deposits	19,066	(34,695)
Materials and supplies inventory	-	(1,862)
Increase in deferred outflows of resources:		
Deferred OPEB outflows	(158,434)	281
Deferred pension outflows	4,044	110,557
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	89,635	(32,829)
Accrued payroll and employee benefits	(34,525)	20,419
Deposits for work-orders	45,808	21,551
Compensated absences	11,068	819
Net OPEB liability	293,439	(806,132)
Net pension liability	134,071	121,943
Increase(Decrease) in deferred inflows of resources:		
Deferred OPEB inflows	(123,760)	851,465
Deferred pension inflows	<u>13,079</u>	<u>(87,201)</u>
Total adjustments	<u>1,138,380</u>	<u>959,815</u>
Net cash provided by operating activities	\$ <u>1,266,637</u>	<u>1,266,555</u>
Non-cash investing, capital, and financing transaction:		
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, continued
For the Years Ended June 30, 2021 and 2020

(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 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.

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

C. Financial Reporting, continued

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

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

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

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

1. Use of Estimates

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

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through 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.

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

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

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.

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.

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

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

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.

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

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

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

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.

(2) Cash and Investments

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

	2021	2020
Cash and cash equivalents	\$ 11,358,192	8,917,269
Restricted – cash and cash equivalents	590,193	590,126
Investments	6,348,129	7,438,524
Total	\$ 18,296,514	16,945,919

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(2) Cash and Investments, continued

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

	2021	2020
Cash and cash equivalents		
Deposits with financial institutions	\$ 3,285,594	1,983,929
Money market mutual fund	8,662,792	7,523,466
Total cash and cash equivalents	11,948,386	9,507,395
Investments		
U.S. Government and Government Agency obligations	1,000,000	2,027,470
California Local Agency Investment Fund	528,734	524,293
Certificate of deposits	3,818,125	3,362,368
Corporate bonds	1,001,269	1,524,393
Total investments	6,348,128	7,438,524
Total cash and investments	\$ 18,296,514	16,945,919

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Credit Quality
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, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020

(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, 2021, 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	\$ 1,000,000	1,000,000		-
California Local Agency Investment Fund	528,734	528,734	-	-
Certificate of deposits	3,818,125	508,893	1,298,737	2,010,495
Corporate bonds	1,001,269	1,001,269	-	-
Total	\$ 6,348,128	3,038,896	1,298,737	2,010,495

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	-
Total	\$ 7,438,524	3,283,734	2,554,602	1,600,188

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, 2021 and 2020

(2) Cash and Investments, continued

Credit ratings as of June 30, 2021, 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	\$ 1,000,000	1,000,000	-	-
California Local Agency Investment Fund	N/A	528,734	-	-	528,734
Certificate of deposits	N/A	3,818,125	-	-	3,818,125
Corporate bonds	Aaa	1,001,269	-	1,001,269	-
Total		\$ 6,348,128	1,000,000	1,001,269	4,346,859

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	-
Total		\$ 7,438,524	2,027,470	1,524,393	3,886,661

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>2021</u>	<u>2020</u>
Wells Fargo Bank Company 7/2021 @ 2.5%	\$ 1,001,269	1,017,407
Wells Fargo Bank Company 3/2021 @ 2.5%	-	506,986
Southern California Public Power Authority	1,000,000	1,019,370
University of California CA Revenue	-	1,008,100

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(3) Investment at Fair Value Hierarchy

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2021, are as follows:

Description	June 30, 2021	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	\$ 1,000,000	-	1,000,000	-
Certificate of deposits	3,818,125	-	3,818,125	-
Corporate bonds	1,001,269	-	1,001,269	-
	<u>5,819,394</u>	<u>-</u>	<u>5,819,394</u>	<u>-</u>
Investments measured at amortized cost:				
Local Agency Investment Fund	<u>528,734</u>			
Total	<u>\$ 6,348,128</u>			

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	-
Total	<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>			

(4) Inventory – Water

On December 10, 2010 and March 12, 2013, the District entered into agreements 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 agreements, 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, 2021 and 2020, inventory of water totaled \$760,800.

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(5) Loans Receivable

Changes in loan receivable for 2021 were as follows:

	<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2021</u>
Loan receivable				
All American Financial Services	\$ 97,781	-	(3,130)	94,651
Total loan receivable	97,781	-	(3,130)	94,651
Less: current portion	(3,130)			(3,004)
Total non-current portion	\$ 94,651			91,647

Changes in loan receivable 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>
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

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, 2021, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,489	3,013	6,502
2027-2031	19,549	12,962	32,511
2032-2036	23,573	8,937	32,510
2037-2041	28,427	4,083	32,510
2042-2043	6,891	155	7,046
Total	94,651	42,436	137,087
Current	(3,004)		
Non-current	\$ 91,647		

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(6) Capital Assets

Change in capital assets for 2021 was as follows:

	<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>2021</u>
Non-depreciable assets:					
Land	\$ 797,708	-	-	-	797,708
Construction-in-process	-	50,000	-	-	50,000
Total non-depreciable assets	<u>797,708</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>847,708</u>
Depreciable assets:					
Distribution systems	10,266,016	-	-	-	10,266,016
General plant	3,996,028	19,080	-	-	4,015,108
Pumping plant and equipment	1,251,444	-	-	-	1,251,444
Wells and improvements	3,534,815	48,319	-	-	3,583,134
Reservoirs and tanks	8,826,778	-	-	-	8,826,778
Buildings and structures	4,660,887	-	-	-	4,660,887
Office furniture and equipment	501,361	-	(6,746)	-	494,615
Tools and equipment	226,620	-	-	-	226,620
Vehicles	958,356	-	-	-	958,356
Total depreciable assets	<u>34,222,305</u>	<u>67,399</u>	<u>(6,746)</u>	<u>-</u>	<u>34,282,958</u>
Accumulated depreciation:					
Distribution systems	(3,873,569)	(169,567)	-	-	(4,043,136)
General plant	(1,080,309)	(194,394)	-	-	(1,274,703)
Pumping plant and equipment	(391,001)	(40,304)	-	-	(431,305)
Wells and improvements	(1,965,415)	(114,106)	-	-	(2,079,521)
Reservoirs and tanks	(4,022,266)	(229,450)	-	-	(4,251,716)
Buildings and structures	(581,593)	(116,522)	-	-	(698,115)
Office furniture and equipment	(451,702)	(26,434)	6,746	-	(471,390)
Tools and equipment	(75,353)	(13,385)	-	-	(88,738)
Vehicles	(841,120)	(49,195)	-	-	(890,315)
Total accumulated depreciation	<u>(13,282,328)</u>	<u>(953,357)</u>	<u>6,746</u>	<u>-</u>	<u>(14,228,939)</u>
Total depreciable assets, net	<u>20,939,977</u>	<u>(885,958)</u>	<u>-</u>	<u>-</u>	<u>20,054,019</u>
Total capital assets, net	<u>\$ 21,737,685</u>	<u>(835,958)</u>	<u>-</u>	<u>-</u>	<u>20,901,727</u>

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(6) Capital Assets, continued

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, 2021 and 2020

(7) Compensated Absences

Change in compensated absences for 2021 was as follows:

<u>Balance 2020</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2021</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 131,525	138,888	(127,820)	142,593	54,185	88,408

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

(8) Long-term Debt

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

	<u>Balance 2020</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2021</u>
Certificate of participation:				
Revenue Certificate of Participation Series 2011	\$ 7,125,000	-	(175,000)	6,950,000
Total certificate of participation	7,125,000	-	(175,000)	6,950,000
Current portion	(175,000)			(185,000)
Non-current portion	\$ 6,950,000			6,765,000

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

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(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>
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	225,000	341,338	566,338
2027-2031	1,325,000	1,501,813	2,826,813
2032-2036	1,750,000	1,078,275	2,828,275
2037-2041	2,315,000	506,463	2,821,463
2042	<u>550,000</u>	<u>15,813</u>	<u>565,813</u>
Total	6,950,000	<u><u>4,914,196</u></u>	<u><u>11,864,196</u></u>
Current	<u>(185,000)</u>		
Non-current	\$ <u><u>6,765,000</u></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, 2021 and 2020

(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:

	2021	2020
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, 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
Salary increases	2020: 3.00% per year
Discount rate	2020: 2.66% per year
Healthcare cost trend	2020: 5.40% effective January 1, 2021, and fluctuates down to 4.00% by year 2076.

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, 2021 and 2020

(9) Other Post Employment Benefit Obligation, continued

Actuarial Assumptions and Other Inputs, continued

As of June 30, 2021, 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, 2020, 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>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 3,125,564	3,931,696
Changes for the year:		
Service cost	107,201	112,832
Interest	84,883	111,603
Expected investment income	(465)	
Employer contributions	(118,383)	(88,871)
Administrative fees	2	
Investment experience	176	-
Differences between expected and actual experience	-	(975,225)
Changes in assumptions or other inputs	<u>220,025</u>	<u>33,529</u>
Net change	<u>293,439</u>	<u>(806,132)</u>
Balance, end of year	<u>\$ 3,419,003</u>	<u>3,125,564</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, 2021, 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>4,087,051</u>	<u>3,419,003</u>	<u>2,892,819</u>

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(9) Other Post Employment Benefit Obligation, continued

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

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	\$ 3,717,511	3,125,564	2,658,536

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, 2021, the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate:

	<u>Trend 1%</u> <u>Lower</u>	<u>Valuation</u> <u>Trend</u>	<u>Trend 1%</u> <u>Higher</u>
Total OPEB liability	\$ 2,848,541	3,419,003	4,165,768

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

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

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

For the years ended June 30, 2021 and 2020, the District recognized an OPEB expense of \$129,628 and \$134,487, respectively. As of June 30, the District's deferred outflows of resources and deferred inflows of resources related OPEB were as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Change of assumptions	\$ 328,169	-	169,876	-
Difference between expected and actual experience	-	(727,705)	-	(851,465)
Net difference between projected and actual earnings on investments	141	-	-	-
Total	\$ <u>328,310</u>	<u>(727,705)</u>	<u>169,876</u>	<u>(851,465)</u>

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(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, 2021, deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows(Inflow of Resources
2022	\$ (61,993)
2023	(61,993)
2024	(61,993)
2025	(73,393)
2026	(87,355)
Thereafter	(52,668)

(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, 2021 and 2020

(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, 2021 and 2020, are summarized as follows:

	<u>Classic</u>	<u>PEPRA</u>
	Prior to January 1, 2013	On or after January 1, 2013
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	11.82%	7.85%
2019 required employee contribution rates	7.00%	7.25%
2019 required employer contribution rates	11.12%	7.19%

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>2021</u>	<u>2020</u>
Contributions – employer	\$ 114,439	102,644

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>2021</u>	<u>2020</u>
Proportionate share of net pension liability	\$ 593,383	459,312

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

	Proportionate Share
Proportion – June 30, 2018	0.00350 %
Change in proportion	0.00098
Proportion – June 30, 2019	0.00448
Change in proportion	0.00097
Proportion – June 30, 2020	0.00545 %

Deferred Outflows(Inflows) of Resources Related to Pensions

For the years ended June 30, 2021 and 2020, the District recognized pension expense of \$282,596 and \$259,738, respectively.

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

Description	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 131,401	-	114,439	-
Differences between actual and expected experience	30,579	-	29,429	-
Change in assumptions	-	(4,232)	14,138	-
Net difference between projected and actual earnings on plan investments	17,627	-	-	(8,030)
Adjustment due to changes in proportions and difference in employer contributions	160,964	(166,010)	186,609	(149,133)
Total	\$ 340,571	(170,242)	344,615	(157,163)

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(10) Defined Benefit Pension Plan, continued

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

As of June 30, 2021 and 2020, the District reported \$131,401 and \$114,439, 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, 2021 and 2020, 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, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year	Deferred Net
Ending	Outflows(Inflows)
June 30,	of Resources
<hr/>	<hr/>
2022	\$ 21,247
2023	3,080
2024	6,147
2025	8,454

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, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020

(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, 2021, the sensitivity of the proportionate share of the net pension liability to changes in the discount rate are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	\$ <u>1,389,024</u>	<u>593,383</u>	<u>(64,029)</u>

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:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	\$ <u>1,204,584</u>	<u>459,312</u>	<u>(155,857)</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, 2021 and 2020

(11) Net Position

The balance at June 30, consists of the following:

	2021	2020
Net investment in capital assets:		
Capital assets, net	\$ 20,901,727	21,737,685
Certificate of participation, current	(185,000)	(175,000)
Certificate of participation, non-current	(6,765,000)	(6,950,000)
Total investment in capital assets	13,951,727	14,612,685
Restricted net position:		
Cash and cash equivalent - restricted	590,193	590,126
Total restricted net position	590,193	590,126
Unrestricted net position:		
Non-spendable net position:		
Inventory of materials and supplies	828,408	828,408
Prepaid expenses	41,377	60,443
Total non-spendable net position	869,785	888,851
Spendable net position - undesignated:	13,562,451	12,399,230
Total unrestricted net position	14,432,236	13,288,081
Total net position	\$ 28,974,156	28,490,892

(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, 2021, 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, 2021 and 2020

(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, 2021. 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, 2021 and 2020.

(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. 87

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

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

Governmental Accounting Standards Board Statement No. 89

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

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

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

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

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 91

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

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

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

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

Governmental Accounting Standards Board Statement No. 92

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

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

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 93

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

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

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

Governmental Accounting Standards Board Statement No. 94

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

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

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

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 96

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

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

Governmental Accounting Standards Board Statement No. 97

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

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

Quartz Hill Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2021 and 2020

(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.

(15) Subsequent Events

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of November 18, 2021, 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.

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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, 2021
Last Ten Years*

Defined Benefit Pension Plan

Description	Measurement Dates						
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's proportion of the net pension liability	0.00545%	0.00448%	0.00350%	0.00383%	0.00305%	0.00969%	0.01041%
District's proportionate share of the net pension liability	\$ 593,383	459,312	337,369	379,377	264,342	664,898	647,499
District's covered-employee payroll	\$ 941,620	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	63.02%	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	75.10%	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

Changes in Benefit Terms

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

Change of Assumptions and Methods

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

In fiscal year 2020, CalPERS implemented a new actuarial valuation software system for the June 30, 2018 valuation. This new system has refined and improved calculation methodology.

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.

Quartz Hill Water District
Schedules of the District's Proportionate Share of the Net Pension Liability, continued
As of June 30, 2021
Last Ten Years*

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

Change of Assumptions and Methods, continued

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, 2021
Last Ten Years*

<u>Description</u>	<u>6/30/2021</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	\$ 131,401	114,439	102,644	85,598	81,899	96,221	103,549
Contributions in relation to the actuarially determined contribution	<u>(131,401)</u>	<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>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 940,292	941,620	763,240	891,515	857,605	876,622	846,211
Contribution's as a percentage of covered-employee payroll	<u>13.97%</u>	<u>12.15%</u>	<u>13.45%</u>	<u>9.60%</u>	<u>9.55%</u>	<u>10.98%</u>	<u>12.24%</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, 2021
Last Ten Years*

Other Post-Employment Benefits Payable

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 3,125,564	3,931,696	3,716,410
Changes for the year:			
Service cost	107,201	112,832	105,118
Interest	84,883	111,603	110,325
Expected investment income	(465)		
Employer contributions	(118,383)	(88,871)	(86,572)
Administrative fees	2		
Investment experience	176	-	-
Differences between expected and actual experience	-	(975,225)	-
Changes in assumptions or other inputs	220,025	33,529	86,415
Net change	<u>293,439</u>	<u>(806,132)</u>	<u>215,286</u>
Balance, end of year	\$ <u>3,419,003</u>	<u>3,125,564</u>	<u>3,931,696</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, 2021 and 2020, 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 November 18, 2021.

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
November 18, 2021