



**Phelan Piñon Hills Community Services District
Phelan, California**

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2021



4176 Warbler Road | Phelan, CA



**Phelan Piñon Hills Community Services District
Phelan, California**

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2021

Prepared by:

Lori Lowrance, Administrative Services Manager

**Phelan Piñon Hills Community Services District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2021**

Table of Contents

	<u>Page No.</u>
Table of Contents	i-ii
Introductory Section	
Letter of Transmittal	1-11
Organization Chart	12
Mission Statement, Board of Directors, and District Management	13
District Service Area Map	14
Government Finance Officers Association – Certificate of Achievement for Excellence in Financial Reporting	15
Financial Section	
Independent Auditor’s Report	16-17
Management’s Discussion and Analysis	18-22
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet – Governmental Funds	25
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Net Position – Water Enterprise Fund	27
Statement of Revenues, Expenses, and Changes in Fund Net Position – Water Enterprise Fund	28
Statement of Cash Flows – Water Enterprise Fund	29-30
Notes to the Basic Financial Statements	31-58
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	59
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Parks & Recreation Fund	60
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Street Lighting Fund	61
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Solid Waste Fund	62
Notes to the Required Supplementary Information	63
Schedules of District’s Proportionate Share of the Net Pension Liability	64-65
Schedules of Pension Plan Contributions	66

**Phelan Piñon Hills Community Services District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2021**

Table of Contents

	<u>Page No.</u>
Statistical Information Section	
Table of Contents	67
Net Position by Component – Last Ten Fiscal Years	68-69
Changes in Net Position – Last Ten Fiscal Years	70-71
Fund Balances, Governmental Funds – Last Ten Fiscal Years	72
Changes in Fund Balances, Governmental Funds – Last Ten Fiscal Years	73
Governmental Funds Revenues – Last Ten Fiscal Years	74
Governmental Funds Expenditures – Last Ten Fiscal Years	75
Assessed Valuations, San Bernardino County – Last Ten Fiscal Years	76
Water Sales Revenue and Water Production – Last Ten Fiscal Years	77
Water Rates – Last Ten Fiscal Years	78
Water Customer Demographics – Last Ten Fiscal Years	79
Ratios of Outstanding Debt – Last Ten Fiscal Years	80
Debt Service Ratio – Last Ten Fiscal Years	81
Demographic and Economic Statistics – Last Ten Calendar Years	82
Operating Indicators by Function – Last Ten Fiscal Years	83
Miscellaneous Statistics	84
Report on Compliance and Internal Controls	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	85-86

Introductory Section



October 20, 2021

The Board of Directors of the
Phelan Piñon Hills Community Services District
Phelan, California

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Phelan Piñon Hills Community Services District (District) for the fiscal year ended June 30, 2021. District staff, following guidelines set forth by the Governmental Accounting Standards Board (GASB), prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

State Law and Agency by-laws require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditor's Report.

District Profile

History

In February 2008, the citizens of Phelan and Piñon Hills overwhelmingly voted to separate the Water, Parks and Recreation, and Street Lighting Districts from the County of San Bernardino and create a Community Services District. The Phelan Piñon Hills Community Service District was established through an election on February 5, 2008. With an 81% approval rating, the voters approved the formation of the District as a consolidation of three Special Districts, Zone-L70 Water, CSA-9 Phelan Parks and Street Lighting and CSA56-F1 Piñon Hills Parks. This consolidation enabled the communities to establish a form of self-governance while maintaining their individual rural integrity. The 128 square mile District is the largest Community Service District in San Bernardino County. In March 2008, the Phelan Piñon Hills Community Services District was formed (LAFCO Resolution 2994), with a five-member Board of Directors elected to govern the District.

District Profile, continued

History, continued

Between March 2008 and June 30, 2008, during the early stages of the transition, the District continued to be operated and maintained by County of San Bernardino Special Districts. From July 1, 2008, through October 2008, the Directors outsourced the operations and maintenance of the District and began the recruitment process. In August, a General Manager was hired and in October through November 2008, the majority of the remaining staff was employed.

On November 16, 2011, LAFCO held a hearing on proposal 3167, and adopted resolution 3153 approving the activation of solid waste and recycling function and services for the District. On January 24, 2012, the Certificate of Completion was processed, formalizing the change in organization.

Governance

The District is governed by an elected, five-member Board of Directors who serve a four year term. Effective May 23, 2017, the election dates (and Directors terms) changed from odd years to even years as a result of SB415. County of San Bernardino Board of Supervisors voted to approve the change of election years in compliance with SB415 and in response to the District's Resolution #2016-15. For the currently seated Board, three Directors were elected in November of 2018, two Directors were elected in November of 2020. The Directors are elected to set the policies of the District and provide guidance and leadership to the management and staff of the District.

The Board of Directors' regularly scheduled meetings are on the first and third Wednesdays of each month at 6pm in the Phelan Community Center. Additionally, the Directors are assigned to at least two standing committees and some serve on ad hoc committees as needed. The committees have regularly scheduled monthly meetings for Engineering, quarterly meetings for Finance, Legislative, Parks & Recreation, Legislative, and Solid Waste and Recycling. These meetings are open to the Public who are encouraged to attend. Resolution 2019-15, Section 1.1 states: The Board shall govern the District. The Board shall establish policies, direction, procedures, and oversight for the operation of the District. The Board shall provide for the implementation of those policies which is the responsibility of the District's General Manager.

The elected Board members delegate management responsibility of the day-to-day operations of the District to an appointed General Manager who, in turn, employs all personnel at the District, including department managers and supervisors. As of June 30, 2021, the District engages twenty-six full-time, three part-time employees. The District combined two part-time positions for the coming year. The District's General Manager, General Counsel, and external Auditor report directly to the Board of Directors.

District Services

As outlined by San Bernardino County LAFCO 3167 Staff Report, the District provides the following within its service area:

Water: Supply water for any beneficial use as outlined in the Municipal Water District law of 1911 (commencing with Section 71000) of the Water Code.

Park and Recreation: Acquire, construct, improve, maintain and operate recreation facilities, including, but not limited to, parks and open space in the same manner as a recreation and park district formed pursuant to the Recreation and Park District Law (commencing with Section 5780) of the Public Resources Code.

Street lighting: Acquire, construct, improve, maintain, and operate street lighting and landscaping on public property, public right-of-way, and public easements.

District Profile, continued

District Services, continued

Solid Waste and Recycling: Collect, transfer, and dispose of solid waste and provide solid waste handling service, including, but not limited to, source reduction, recycling, composting activities, pursuant to Division 30 (commencing with Section 40000), and consistent with Section 41821.2 of the Public Resources Code.

Water

The primary component of the District is water service. Being efficient in every aspect is essential and will help in improving fiscal responsibility, as well as system integrity. Developing relationships with neighboring water companies, agencies, and resources will enable the community to be more responsible and efficient.

The District operates and maintains a considerable infrastructure to provide safe, good tasting water to 7,104 service connections within an approximate 128 square mile service area. The water service area is almost entirely single-family residential which comprises approximately 99 percent of total water service connections.

The water infrastructure consists of 11 wells (approximately 1,000 feet deep) in six well fields, 35 reservoirs with a combined capacity of approximately 12,000,000 gallons, 4 de-sanding tanks, 24 booster stations, 63 booster pumps, and 32 pressure reducing stations in 11 pressure zones, with approximately 353 miles of pipeline ranging from 4-inch to 16-inch in diameter.

The District obtains its water supply from the local groundwater aquifer which is managed by two water authorities: Mojave Water Agency (MWA) and Antelope Valley Watermaster (AVW). If the District produces more than its allowance of groundwater in the MWA basins, the District may purchase replacement water from MWA, who replenishes the groundwater primarily with imported water from the State Water Project. If the District pumps any water out of the AVW basin, the District must pay the per unit fee, which changes annually.

The District encourages water conservation and offers incentive programs in partnership with Alliance for Water Awareness and Conservation (AWAC), through the Mojave Water Agency, plus resource material to promote desert landscape. The District is also focused on providing service now, and for future generations.

Parks and Recreation

The District operates and maintains community centers with senior centers and two parks. The District continues to expand and improve these facilities to promote use. The District partners with the seniors at the two facilities and throughout the District to create programs that are beneficial to the community at large. The District also partners with local sports organizations to create sports programs and activities in the community.

Parks and recreation are a vital component to any community. It not only adds beauty but provides safe areas for activities of individuals, families, and groups. As part of the District, there are two community centers. These centers are utilized for a wide range of activities and are available for private party rental for a small fee. The District currently offers several events and activities and continues to explore various recreation ideas for the community.

Adjacent to the centers are two parks that have picnic tables and playgrounds. They are available from morning until dusk. The District is looking to develop a large park facility that will have athletic fields, as well as standard park integrity. The District owns vacant parcels for future park and recreation facilities throughout the District.

District Profile, continued

Street lighting

Street light service is primarily located in the business district of Phelan. The District also has some lights at strategic intersections to help in providing safety to the community. The District considers expansion of the street lighting to other intersections based upon a safety need, but the District does respect the San Bernardino County “Dark Sky” ordinance and encourages residents to do the same.

Solid Waste

The District administers solid waste and recycling programs. The District is responsible for compliance with state and federal mandates regarding solid waste and recycling and coordinates various programs and provides a variety of solid waste and recycling events within the community. The District works closely with the contractual hauler, CR&R to help accomplish these tasks.

Local Economy

The District is located in Phelan and Piñon Hills, California, two unincorporated communities within San Bernardino County. During the first several years, San Bernardino County had witnessed a decrease in property values due to the downturn in economic activity. Recent activity within the region, however, suggests a strengthening in home sale median prices and increased commercial activity. This past year, increased home sales and new building throughout the Inland Empire has provided an upward trend in housing costs.

Financial Planning

Since the District’s formation in 2008, the District has continued to look for cost saving measures and efficiencies. The District was able to decrease expenses considerably over the County’s cost of providing services. Despite the Board’s efforts to maintain rates and fees, revenues decreased and the cost of operating the District continued to rise. Due to the economic downturn and housing vacancies within the District, water revenue decreased by over 15% between 2009 and 2012. The economy also caused a reduction in property tax values resulting in a loss of almost 40% of property tax revenue between 2008 and 2012. The cost of pumping water out of the ground, the District’s only water source, increased by 18% in 2013, 14% in 2014, 5% in 2015, by another 5% in 2016 and continue to increase annually, including a 9% increase in 2020, due to the Southern California Edison rate changes. These increases, along with the impacts of the conservation mandates, negated the rate increases that were adopted in 2013 and implemented each year thereafter, thus requiring a water rate study in 2015 and again in 2020. The rate study outlined recommended rate changes, which the District adopted accordingly. The cost of operations continues to rise, including costs of producing and delivering water, and providing clean, safe parks and community centers with programs and activities for the community.

The District continues to look for alternative ways to increase revenue and decrease expenses in an effort to minimize rate changes to customers. In 2012 and 2015, the District purchased water rights which will result in a savings of reduced water rights fees. Even after repaying the \$7.5 million loan, this purchase is estimated to save the District \$24 million over the next thirty years. In 2016, the District installed a solar project that results in credits against the District’s most costly (currently over \$760,000 per year) expense: electricity. After loan repayment, the estimated savings due to the solar project were projected to be up to \$13 million over thirty years. The combined results of these two measures are savings estimated to exceed \$37 million over the next thirty years.

Financial Planning, continued

Current Financial Plans

In 2012, the District conducted the first water rate and fee study. The study was completed over a six-month period with several public workshops held throughout the process to garner public involvement and input. On February 20, 2013, after exceeding notification and meeting requirements of Proposition 218 (now Articles XII C & D of the California Constitution), the Board held a public hearing on the proposed multi-year rate change and adopted the rate schedule.

In 2015, after state mandated orders were issued to address the drought conditions in the state and state water quality mandates necessitated the plan for a \$17 million blending project, the District completed a second water rate study. The District again exceeded the requirements of Proposition 218 by notification of customers, holding workshops, and conducting public outreach meetings. In January 2016, rate changes were approved that include increased charges to recover the lost revenues and additional costs to the District resulting from the state mandated conservation programs as well as a surcharge to cover the costs to blend water in order to meet the state mandated water quality changes. In 2020, the most recent rate study was completed. The Board of Directors reviews the approved rate changes each year to verify the necessity of the rate change, and to determine if the change can be reduced as a result of District efforts to lower expenses and obtain additional revenues to help mitigate the costs of operations.

The Chromium-6 mitigation project was implemented in response to requirements by the State of California which lowered the acceptable levels of Chromium-6 that can be detected in drinking water from 50 parts per billion (ppb) to 10 ppb. While the levels found in the District's water supply (at certain sources) remain significantly below the federal standards (100 ppb) and the former state standards (50 ppb), it slightly exceeded the state standards established on July 1, 2014 of 10 ppb. After significant review and consideration, it was determined that blending the District's water with water from a new source would meet the mandated water quality standards. The cost of the facilities that would enable blending was projected to be \$17 million. The District was seeking grants and low interest loans to help reduce the impact to the customers. The District was in the process of implementing its compliance project when the State Water Resources Control Board reversed its ruling, changing the maximum contaminant levels (MCL) back to 50 ppb. It is expected that the MCL will be reduced again, however the revised MCL is unknown at this time. The District has spent approximately \$4.8 million toward the compliance project and has approved an additional \$3.2 million in projects to meet the state mandates. The total of approximately \$8 million for the revised projects is less than half of the original estimate of \$17 million. The District will continue to collect the surcharge from customers to recover the funds expended.

In 2015/2016, the District completed installation of a 1.16 megawatt solar project, which is projected to save the District in excess of \$13 million over a thirty year period. The District receives credits for electricity produced from the solar project that to help offset the considerable electric costs.

Long-Term Financial Plans

The District has developed a 10-year plan for infrastructure repair, replacement, and additions. The additional facilities for the Water Fund are projected based on the District's Water Master Plan as growth occurs. A Parks Master Plan was completed in 2019 outlining long range plans and priorities. Parks and Recreation and Solid Waste and Recycling plans are developed by staff and the Committees. The repairs and replacements for all funds are based on estimated useful life of District facilities. These plans are updated and reviewed by the Board of Directors each year.

Financial Planning, continued

District Strategic Plan

The District developed and adopted its first District wide Strategic Plan in 2017/2018. The plan was developed by BHI Management Consulting. BHI had numerous meetings with the Board of Directors, management, staff, and the public, to bring forth a comprehensive plan that will help to focus development of the District. The plan is available on the District's website and is cited throughout this document in reference to goals and plans for the coming year.

Relevant Financial Policies and Controls

Phelan Piñon Hills Community Services District financial policies include many of the District's financial management practices that are used by District staff as guidelines for operational and strategic decision making related to current and future financial matters. The purpose of establishing these policies is to set parameters in which the District can operate to best serve its constituents. Some policies are flexible when they are utilized by District staff as management tools to monitor the District's finances, while others are restrictive to emphasize accountability.

These policies are drafted as living documents to maintain their effectiveness in order to accommodate changes. District staff and Board Members review these policies periodically to accommodate minor changes to the existing policy or major changes in financial priorities as approved by the Board of Directors at its sole discretion.

The District's primary financial policies encompass the following areas:

- Budget Policy
- Investment Policy
- Reserves Policy
- Revenue Policy
- Purchasing Policy

Budget Policy (Resolution 2019-05)

The current budget policy was approved April 3, 2019. The Board's goal was to formally document the budget goals and practices. The budget policy addresses legal requirements, balanced budget definition and goals, periodic reporting requirements, and revenue, expense and capital expenditure assumption guidelines. The District considers a budget as balanced if there are sufficient net revenues to cover the cost of operations and debt service.

Investment Policy (Resolution 2020-01)

The investment policy provides guidelines for ensuring the safety of funds invested while maximizing investment interest income to the District. The policy and procedures are written to be in accordance with California Government Code Sections 53600 et seq. and 53635 et seq. The three principle investment factors of safety, liquidity, and yield are to be taken into consideration, in the specific order listed when making any and all investment decisions.

Reserves Policy (Resolution 2016-04)

The District reserves policy was established to protect the District's customers, taxpayers, investments in various assets and commitments under numerous financial, regulatory, and contractual obligations. The efficient management of these reserves, when combined with their appropriate fortification, add additional assurance that current levels of safety, service reliability, and quality will continue into the future.

Relevant Financial Policies and Controls, continued

Reserves Policy (Resolution 2016-04), continued

Reserves are broken down into three areas, Operations, Property Plant and Equipment Replacement, and Disaster Response.

- Operating reserves has a goal of six months and no less than three months of operating expenses, based on the current budget, and includes a debt service reserve, as required by debt covenants.
- Property, Plant and Equipment (PPE) reserves have a goal of 25% to 50% of accumulated depreciation. This is to assure there is adequate funding available to make major repairs (extending the useful life of the asset), and replace PPE as is necessary.
- Disaster Response reserves has a goal of 10% to 20% of total assets (excluding Land and Water Rights). This is to help ensure that, in the event of disaster, the District will have the funds necessary to repair and/or replace assets that are damaged.

Revenue Policy (Resolution 2016-07)

The purpose of this policy is to establish the District's basic policies and procedures concerning revenues received by the District. The Policy shall include guidelines to design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support District services, in accordance with GAAP, and State and Federal laws.

Revenues received by the District shall be utilized in accordance with this policy. Revenue received for specific funds within the District shall be utilized for expenses and obligations incurred by that fund. Revenue received into the Governmental Fund will be distributed in accordance with the Budget and the policies and approved by the Board of Directors.

Purchasing Policy (2014-08)

The purpose of the policy is to standardize the purchasing procedures of the District, thereby securing advantages of a uniform purchasing policy, saving the taxpayers money and increasing public confidence in the procedures for District purchasing; to promote the fair and equitable treatment of all customers and suppliers, and to set forth the duties and responsibilities of the General Manager and District staff. The purchasing policy is reviewed periodically and updated as deemed appropriate by the Board of Directors.

- Less than \$5,000 Managed by rules of procedures established by the General Manager
- \$5,000 – \$15,000 Requires three quotations and approval of the General Manager
- \$15,000 – \$25,000 Requires price quotations and informal or formal bids and approval of the General Manager
- Exceeding \$25,000 Requires Board approval

Government Fund Balance Policy

The District adopted fund balance policy based on the published Governmental Accounting Standards Board (GASB) Statement No. 54, which established accounting and financial reporting standards for all governments that report governmental funds. This statement divides the fund balance into five classifications: (1) non-spendable, (2) restricted, (3) committed, (4) assigned, and (5) unassigned.

Relevant Financial Policies and Controls, continued

Internal Control

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The Board of Directors adopts the Phelan Piñon Hills Community Services District (District) annual budget, after public hearing(s), by June 30 of each year. The budget is in effect from July 1 of the current year to June 30 of the following year. The Board may modify the budget at any time with majority approval.

The General Manager is authorized to implement the programs as approved in the adopted budget. It is the responsibility of the General Manager to establish adequate controls to ensure expenditures do not exceed the approved budget. The Purchasing Policy provides the standards and approval levels by which purchases can be made. Additionally, rules of the procedures are established by the General Manager to ensure against abuse of public interest.

The Board reviews the budget versus actual revenues and expenses at committee level and financials are also presented to the Board on a quarterly basis for consideration. Budget adjustments may be authorized by the Board of Directors.

Accounting and Financial Practices

The Districts accounting and budgetary records are maintained using an accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services recorded at year end.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: Governmental and Enterprise (or proprietary) categories:

Governmental Funds – General, Parks and Recreation, Street Lighting, and Solid Waste and Recycling.

Enterprise Fund – Water

Major Initiatives by Department

Administration and Finance

Administration and Finance is responsible for general administration and fiscal support to the Board, Management, Supervisors, and all departments within the District. These duties include complete financial and accounting support for all departments, providing great service to customers and staff, administrative duties to the Board, risk management, Human Resources, document management, public relations, facilities reservations, accounting, accounts payable, accounts receivable, payroll, debt service, water billing, and revenue collection.

Major Initiatives by Department, continued

Administration and Finance, continued

Projects in Progress and/or Completed in 2020/2021:

- Received CAFR Award from GFOA (Government Finance Officers Association)
- Received Budget Award from GFOA and CSMFO
- Maintained Transparency Certification from California Special District Association (CSDA)
- Provided outstanding customer service
- Completed scanning of customer service files into Tyler system
- Explore and implement treasury options
- Update policies and procedures
- Cross-training program
- Develop Succession and Retention Planning Program
- Update Employee Personnel Manual
- Implement Asset Management Program
- Implement key CIP projects
- Update Emergency Preparedness Program
- Completed Water Rate and Fee Study
- Updated Rules and Regulations, policies, procedures and processes to comply with SB998 (Water Shut-off Protection Act)

Engineering

The Engineering Department provides professional planning and engineering services to our customers (both internal and external). Further, it is charged with overseeing, planning, designing, and implementing numerous projects outlined by the District's adopted Water Master Plan and integrating and coordinating those projects in conjunction with outside programs and agencies. Additionally, it provides for quality development through customer service and timely and effective management of development and compliance processes.

Projects in Progress and/or Completed in 2020/2021:

- Expand GIS application and field data to include links to as-built, easements, etc.
- Civic Center Complex – Consultants/County coordination
- Future Phelan Park Expansion Project – Planning; Consultants/County
- Pressure Zone 7 Expansion (Tank 6A capacity mitigation) pipeline projects
- Expand GIS platform – transfer to a server-based system
- Thermal Imagery leak detection program
- Chromium-6 Mitigation Project – Engineering Study of potential revised
- 2020 Water Master Plan (WMP) – Review, manage
- 2020 Urban Water Management Plan (UWMP) – Review, manage
- 2020 Water Rate and Connection Fee Study – Review, manage
- Site 3C Booster “A” and “B” design & engineering coordination
- Smithson Springs – Tank and Pipeline Study/Design
- Water meter replacement AMI GIS integration

Major Initiatives by Department, continued

Water Operations

Water Operations is responsible for the production, treatment, and distribution of reliable high-quality groundwater to the District's customers in an efficient manner. Water Operations personnel focus on reliability and accountability in the operation and maintenance of a vast array of production, conveyance, and distribution facilities, processes and systems to protect public health and to maintain high quality water consistent with all regulations. Water Operations personnel also perform monitoring, implement processes, and conduct analysis to ensure the water delivered to the customers meets and exceeds all regulatory requirements.

Projects in Progress and/or Completed in 2020/2021:

- Valve Maintenance and Exercising Program - 2,200 a year goal
- Hydrant Maintenance and Flushing Program 600 a year goal
- Dead-end Flushing Program all flushed yearly no exceptions
- Service Line Replacement Program 100 a year goal
- Cross Connection Prevention Program
- Air-Vac Maintenance and Flushing Program 150 a year goal
- Monthly tank inspections and annual overflows to ensure good sanitary practices
- Sand testing of District wells and boosters
- PRV Maintenance and Repair Program
- Provide training and education to all staff in OSHA regulations
- Implement strict and accurate inventory standards established over the last year
- Perform annual pump efficiency at District wells and boosters
- Perform annual meter certifications at all District wells
- Systematic and thorough cleaning of selected District reservoirs
- Train all staff on SCADA system
- Annual exercise of the District's emergency response and public notification plans - every April
- Pursue innovative ways to maximize efficiency of district staff while simultaneously reducing
- Streamline communication devices for the District and phase out pagers and radios to new devices
- Remain in compliance with CARB by purchasing new Tier 4 final dump truck
- Develop and implement a Water Loss Control Program to effectively reduce system water loss
- Coordinate and implement new pressure pneumatic system at reservoir 6A with dual redundancy

Parks and Recreation

Parks and Recreation manages and maintains District-owned parks and recreation facilities to provide quality, safe, facilities to meet the needs of the community. It provides planning for facility development and improvement projects. Additionally, it provides development of projects and events for recreation, programs and activities of the District.

Projects in Progress and/or Completed in 2020/2021:

- Park expansion project
- Improve park operations
- Provide additional training for staff
- Pursue additional recreation programs in partnership with businesses, clubs, and local sports associations
- Pursue additional recreational programs to meet community needs
- Repair or replace approved equipment and facilities from the 10-year maintenance plan
- Design and scheduled replacement of the Phelan parking lot
- Study and develop District's first parks master plan
- Implement master plan as a guide for Parks and Recreation Planning

Major Initiatives by Department, continued

Street Lighting

Street light service is primarily located in the business district of Phelan; there are some at strategic intersections to help in providing safety to the community. The District considers expansion of the street lighting to other intersections based upon a safety need, but the District does respect the San Bernardino County “Dark Sky” ordinance and encourages residents to do the same.

Projects in Progress and/or Completed in 2020/2021:

There were no requests for street lights in 2020/2021.

Solid Waste

The District administers solid waste and recycling programs. The solid waste and recycling services are contracted with CR&R. The District works closely with CR&R to coordinate various programs and provide a variety of recycling events within the community.

Projects in Progress and/or Completed in 2020/2021:

- Two Community Clean Up Days
- Tire Recycling Program – completed
- School Recycling Contest
- School Outreach Program
- Implement Uniform Commercial Trash and Recycling Program
- Composting Workshop
- Earth Day contest
- Begin implementation of organic waste collection for required businesses
- Expand voluntary residential collection participation
- Develop new programs
- Develop/expand new partnerships

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Phelan Piñon Hills Community Services District’s fiscal policies.

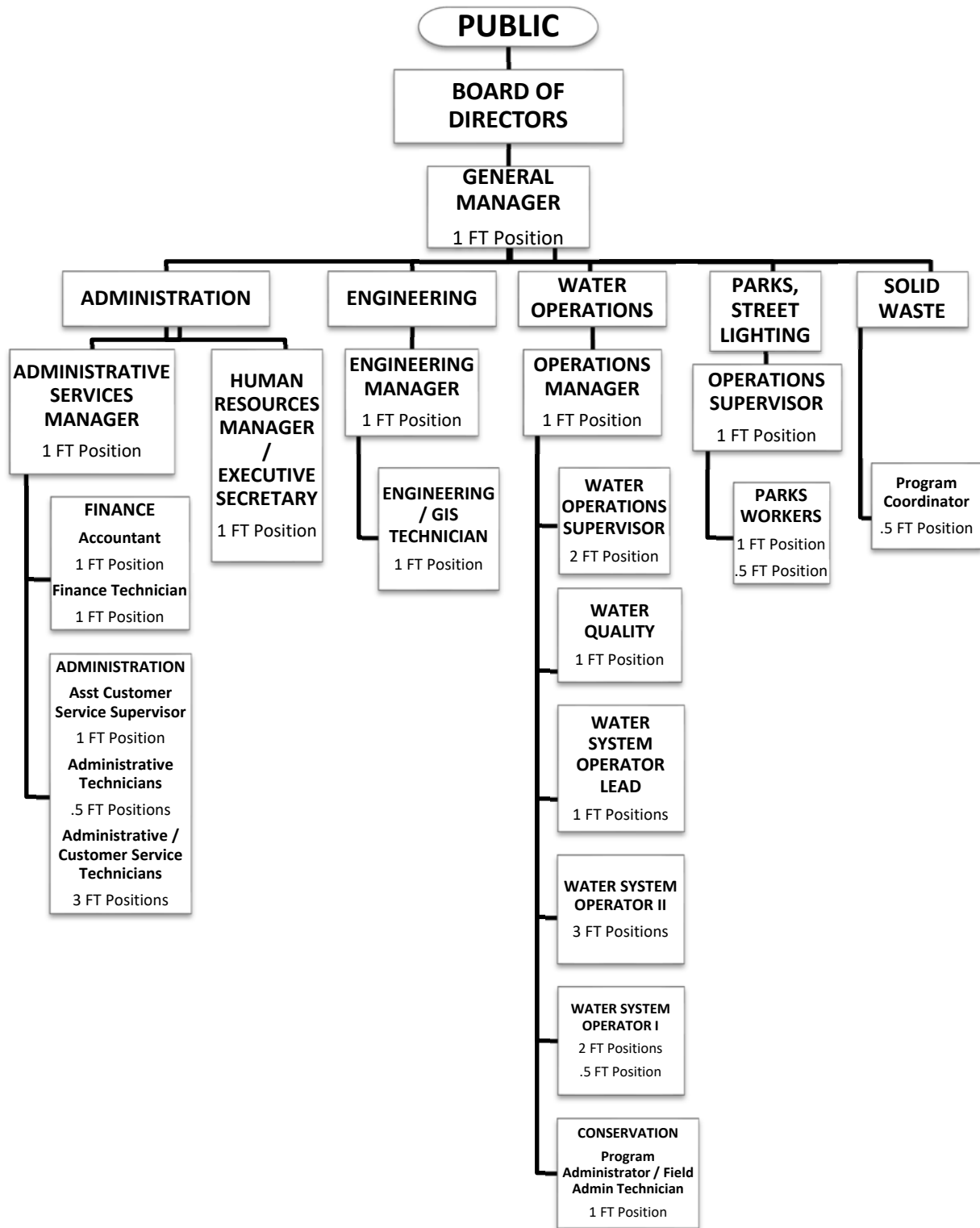
Respectfully submitted,



Don Bartz, General Manager

Organizational Chart

As of June 30, 2021



FT = 26 Full Time

Phelan Piñon Hills Community Services District

Our Mission Statement

“The Mission of the Phelan Piñon Hills Community Services District is to efficiently provide authorized services and maximize resources for the benefit of the community.”

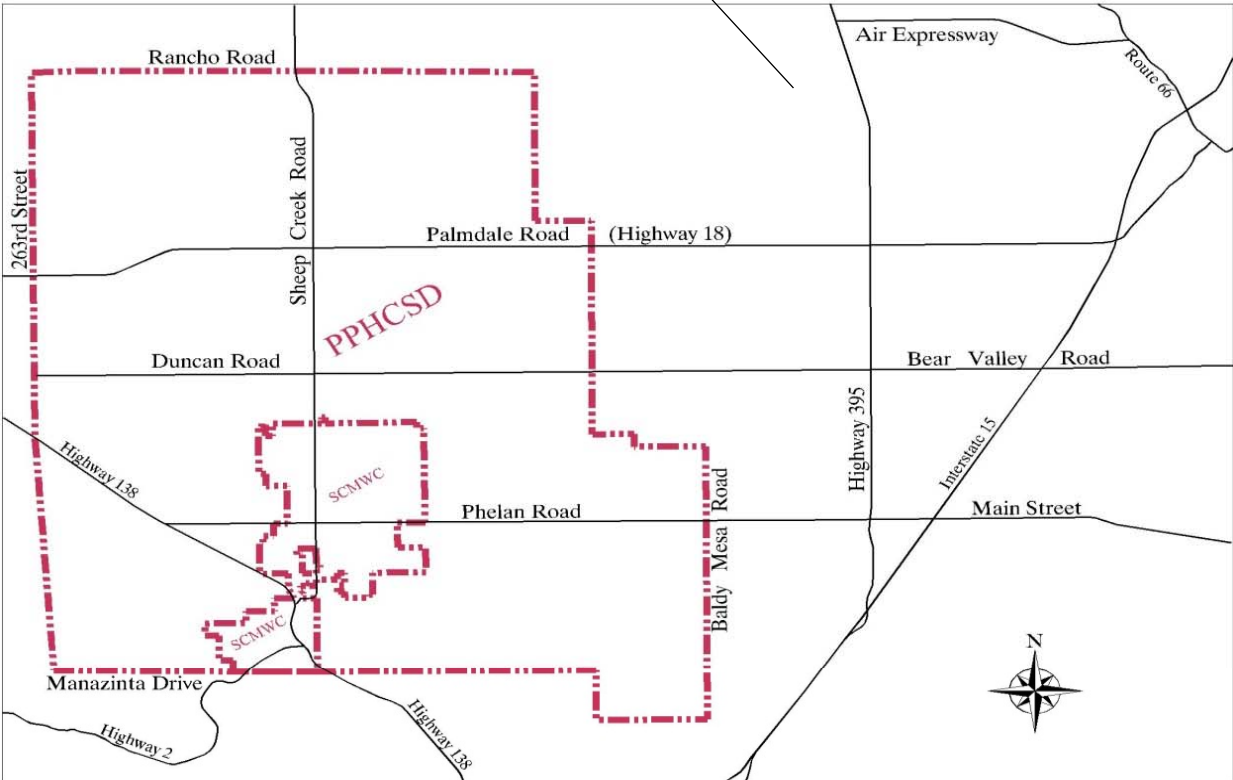
<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Kathy Hoffman	President	Elected	2022
Rebecca Kujawa	Vice President	Elected	2024
Charlie Johnson	Director	Elected	2022
Deborah Philips	Director	Elected	2022
Mark Roberts	Director	Elected	2024

District Management

Donald Bartz	General Manager
Lori Lowrance	Administrative Services Manager
Kim Ward	Human Resources Manager/Executive Secretary
George Cardenas	Engineering Manager
Sean Wright	Water Operations Manager

**Phelan Piñon Hills Community Services District
4176 Warbler Road
Phelan, CA 92371
(760) 868-1212**

District Service Area





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Phelan Pinon Hills Community Services District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO



Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Fedak & Brown LLP

Certified Public Accountants

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

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

Independent Auditor's Report

Board of Directors
Phelan Piñon Hills Community Services District
Phelan, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Phelan Piñon Hills Community Services District (District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 18 through 22 and the required supplementary information on pages 59 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 15 and statistical section on pages 67 through 84 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. That report can be found on pages 85 and 86.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

October 20, 2021

Phelan Piñon Hills Community Services District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021

The following Management’s Discussion and Analysis (MD&A) of activities and financial performance of the Phelan Piñon Hills Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2021, the District’s net position increased by 2.89% or \$1,416,079 to \$50,408,706 as a result of ongoing operations.
- In 2021, the District’s total revenues increased 0.71% or \$76,479 to \$10,837,669.
- In 2021, the District’s total expenses increased by 2.57% or \$235,990 to \$9,421,590.

Using This Financial Report

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

The Statement of Net Position includes all of the District’s investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year’s revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District’s operations over the past year and can be used to determine the District’s profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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 Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year’s revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District’s *net position* and changes in it. Think of the District’s net position – assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District’s financial health, or *financial position*. Over time, *increases or decreases* in the District’s net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in the District’s property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

**Phelan Piñon Hills Community Services District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 31 through 58.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statement of net position at June 30, 2021.

Condensed Statements of Net Position						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Assets:						
Current assets	\$ 7,516,688	6,729,115	15,205,198	14,268,179	22,721,886	20,997,294
Non-current assets	2,076	-	18,670	-	20,746	-
Capital assets, net	3,888,889	3,663,363	38,092,571	38,238,412	41,981,460	41,901,775
Total assets	<u>11,407,653</u>	<u>10,392,478</u>	<u>53,316,439</u>	<u>52,506,591</u>	<u>64,724,092</u>	<u>62,899,069</u>
Deferred outflows of resources	<u>37,826</u>	<u>55,442</u>	<u>340,423</u>	<u>498,960</u>	<u>378,249</u>	<u>554,402</u>
Liabilities:						
Current liabilities	118,337	55,672	3,457,649	2,658,050	3,575,986	2,713,722
Non-current liabilities	8,770	18,059	11,053,988	11,726,886	11,062,758	11,744,945
Total liabilities	<u>127,107</u>	<u>73,731</u>	<u>14,511,637</u>	<u>14,384,936</u>	<u>14,638,744</u>	<u>14,458,667</u>
Deferred inflows of resources	<u>5,490</u>	<u>218</u>	<u>49,401</u>	<u>1,959</u>	<u>54,891</u>	<u>2,177</u>
Net position:						
Net investment in capital assets	3,888,889	3,663,363	26,472,413	26,133,427	30,361,302	29,796,790
Unrestricted	7,423,993	6,710,608	12,623,411	12,485,229	20,047,404	19,195,837
Total net position	<u>\$ 11,312,882</u>	<u>10,373,971</u>	<u>39,095,824</u>	<u>38,618,656</u>	<u>50,408,706</u>	<u>48,992,627</u>

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021**

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$50,408,706 as of June 30, 2021. The District's total net position is made-up of two components: (1) net investment in capital assets and (2) unrestricted net position.

Statements of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2021.

	Condensed Statements of Activities					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:						
Program revenues:						
Charges for services	\$ 181,104	17,143	8,472,683	7,277,074	8,653,787	7,294,217
General revenues:						
Property taxes	1,387,911	1,281,699	17,825	16,235	1,405,736	1,297,934
Interest earnings	37,895	135,202	-	309,495	37,895	444,697
Other	304,347	427,169	435,904	1,297,173	740,251	1,724,342
Total revenues	<u>1,911,257</u>	<u>1,861,213</u>	<u>8,926,412</u>	<u>8,899,977</u>	<u>10,837,669</u>	<u>10,761,190</u>
Expenses:						
General	4,953	8,165	-	-	4,953	8,165
Parks and recreation	491,166	457,238	-	-	491,166	457,238
Street lighting	15,840	14,466	-	-	15,840	14,466
Solid waste	20,387	39,307	-	-	20,387	39,307
Water	-	-	8,889,244	8,666,424	8,889,244	8,666,424
Total expenses	<u>532,346</u>	<u>519,176</u>	<u>8,889,244</u>	<u>8,666,424</u>	<u>9,421,590</u>	<u>9,185,600</u>
Excess before transfers	1,378,911	1,342,037	37,168	233,553	1,416,079	1,575,590
Transfers from(to) other funds	<u>(440,000)</u>	<u>(453,109)</u>	<u>440,000</u>	<u>453,109</u>	<u>-</u>	<u>-</u>
Change in net position	<u>938,911</u>	<u>888,928</u>	<u>477,168</u>	<u>686,662</u>	<u>1,416,079</u>	<u>1,575,590</u>
Net position, beginning of period	<u>10,373,971</u>	<u>9,485,043</u>	<u>38,618,656</u>	<u>37,931,994</u>	<u>48,992,627</u>	<u>47,417,037</u>
Net position, end of period	<u>\$ 11,312,882</u>	<u>10,373,971</u>	<u>39,095,824</u>	<u>38,618,656</u>	<u>50,408,706</u>	<u>48,992,627</u>

Compared to prior year, net position of the District increased 2.89% or \$1,416,079 to \$50,408,706 as a result of ongoing operations.

Total revenues increased 0.71% or \$76,479 to \$10,837,669. The District's program revenues increased by \$1,359,570, due primarily to increases of \$675,222 in water consumption sales, \$370,927 in other charges for services, and \$134,789 in monthly meter service charge. The District's general revenues decreased by \$1,283,091, due primarily to decreases of \$871,575 in solar electricity settlement and \$406,802 in interest earnings.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021**

Government-wide Financial Analysis, continued

Statements of Activities, continued

Total expenses increased by 2.57% or \$235,990 to \$9,421,590, due primarily to increases of \$481,678 in pumping – utilities, \$378,664 in general and administrative, \$202,051 in transmission and distribution, and \$121,863 in interest expense related to long-term debt, which were offset by a decrease of \$917,843 in source of supply – settlement.

Changes in Fund Balance – Governmental Funds

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2021.

Condensed Changes in Fund Balance - Governmental Funds

	<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Activities</u>
Fund balance, beginning of year	\$ 2,117,702	4,459,874	6,601	94,855	6,679,032
Change in fund balance	512,736	199,226	16,199	(72)	728,089
Fund balance, end of year	\$ <u>2,630,438</u>	<u>4,659,100</u>	<u>22,800</u>	<u>94,783</u>	<u>7,407,121</u>

In 2021, total fund balance increased by 10.90% or \$728,089 to \$7,407,121. The General fund increased by 24.21% or \$512,736 to \$2,630,438 due primarily to revenues exceeding expenditures and transfers out. The Parks and Recreation fund increased by 4.47% or \$199,226 to \$4,659,100 due primarily to revenues exceeding expenditures and transfers in. The Street Lighting fund increased by 245.40% or \$16,199 to \$22,800, and the solid waste fund decreased by 0.08% or \$72 to \$94,783.

Capital Asset Administration

Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Capital assets:						
Non-depreciable assets	\$ 3,278,756	2,968,978	19,273,599	18,704,222	22,552,355	21,673,200
Depreciable assets	<u>2,098,500</u>	<u>2,098,500</u>	<u>48,960,124</u>	<u>48,201,377</u>	<u>51,058,624</u>	<u>50,299,877</u>
Total capital assets	5,377,256	5,067,478	68,233,723	66,905,599	73,610,979	71,973,077
Accumulated depreciation	<u>(1,488,367)</u>	<u>(1,404,115)</u>	<u>(30,141,152)</u>	<u>(28,667,187)</u>	<u>(31,629,519)</u>	<u>(30,071,302)</u>
Total capital assets, net	\$ <u>3,888,889</u>	<u>3,663,363</u>	<u>38,092,571</u>	<u>38,238,412</u>	<u>41,981,460</u>	<u>41,901,775</u>

At the end of fiscal year 2021, the District's capital assets (net of accumulated depreciation) amounted to \$41,981,460. Capital assets includes land, buildings, building improvements, furnishings and equipment, collection and distribution systems, tanks, wells, water transmission and distribution systems, and construction-in-process. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

**Phelan Piñon Hills Community Services District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021**

Long-Term Debt Administration

		Long-term Debt					
		<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Long-term debt:							
Long-term debt	\$	-	-	11,620,158	12,104,985	11,620,158	12,104,985
Total long-term debt	\$	-	-	11,620,158	12,104,985	11,620,158	12,104,985

Long-term debt decreased by 4.01% or \$484,827 to \$11,620,158 in 2021 primarily due to regular debt service payments. The long-term debt position of the District is more fully analyzed in Note 5 to the basic financial statements.

Conditions Affecting Current Financial Position

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

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

Requests for Information

This financial report is designed to provide the District’s present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District’s finances and to demonstrate the District’s accountability with an overview of the District’s financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District’s Administrative Services Manager, Lori Lowrance, at Phelan Pinon Hills Community Services District, 4176 Warbler Road, Phelan, California, 92371 or (760) 868-1212.



Basic Financial Statements

Phelan Piñon Hills Community Services District
Statement of Net Position
June 30, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 2)	\$ 7,452,927	13,346,297	20,799,224
Accrued interest receivable	-	14,891	14,891
Accounts receivable – water sales and services	-	1,060,016	1,060,016
Accounts receivable – other	36,497	64,306	100,803
Property taxes and assessments receivable	27,264	118,698	145,962
Materials and supplies inventory	-	301,285	301,285
Prepays and other assets	-	299,705	299,705
Total current assets	<u>7,516,688</u>	<u>15,205,198</u>	<u>22,721,886</u>
Non-current assets:			
Capital assets – not being depreciated (note 3)	3,278,756	19,273,599	22,552,355
Capital assets – being depreciated, net (note 3)	610,133	18,818,972	19,429,105
Net pension asset (note 6)	2,076	18,670	20,746
Total non-current assets	<u>3,890,965</u>	<u>38,111,241</u>	<u>42,002,206</u>
Total assets	<u>11,407,653</u>	<u>53,316,439</u>	<u>64,724,092</u>
Deferred outflows of resources:			
Deferred pension outflows (note 6)	<u>37,826</u>	<u>340,423</u>	<u>378,249</u>
Current liabilities:			
Accounts payable and accrued expenses	84,788	1,889,736	1,974,524
Accrued salaries and related payables	7,188	102,369	109,557
Customer deposits and unearned revenue	17,591	69,433	87,024
Accrued interest on long-term debt	-	68,510	68,510
Due to other agency	-	584,541	584,541
Long-term liabilities – due within one year:			
Compensated absences (note 4)	8,770	88,445	97,215
Long-term debt (note 5)	-	654,615	654,615
Total current liabilities	<u>118,337</u>	<u>3,457,649</u>	<u>3,575,986</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 4)	8,770	88,445	97,215
Long-term debt (note 5)	-	10,965,543	10,965,543
Total non-current liabilities	<u>8,770</u>	<u>11,053,988</u>	<u>11,062,758</u>
Total liabilities	<u>127,107</u>	<u>14,511,637</u>	<u>14,638,744</u>
Deferred inflows of resources:			
Deferred pension inflows (note 6)	<u>5,490</u>	<u>49,401</u>	<u>54,891</u>
Net position (note 7):			
Net investment in capital assets	3,888,889	26,472,413	30,361,302
Unrestricted	<u>7,423,993</u>	<u>12,623,411</u>	<u>20,047,404</u>
Total net position	<u>\$ 11,312,882</u>	<u>39,095,824</u>	<u>50,408,706</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General	\$ 4,953	179,283	-	174,330	-	174,330
Parks and recreation	491,166	1,821	-	(489,345)	-	(489,345)
Street lighting	15,840	-	-	(15,840)	-	(15,840)
Solid waste	20,387	-	-	(20,387)	-	(20,387)
Total governmental activities	532,346	181,104	-	(351,242)	-	(351,242)
Business-type activities:						
Water	8,889,244	8,472,683	-	-	(416,561)	(416,561)
Total business-type activities	8,889,244	8,472,683	-	-	(416,561)	(416,561)
Total	\$ 9,421,590	8,653,787	-	(351,242)	(416,561)	(767,803)
General revenues:						
Property taxes				\$ 1,387,911	17,825	1,405,736
Interest earnings				37,895	-	37,895
Other				304,347	435,904	740,251
Total general revenues				1,730,153	453,729	2,183,882
Transfers (to)/from other funds (note 8)				(440,000)	440,000	-
Change in net position				938,911	477,168	1,416,079
Net position, beginning of year				10,373,971	38,618,656	48,992,627
Net position, end of year				\$ 11,312,882	39,095,824	50,408,706

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2021

		<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Funds</u>
Assets:						
Cash and cash equivalents	\$	2,601,833	4,748,317	24,216	78,561	7,452,927
Accounts receivable – services		18,842	580	-	17,075	36,497
Property taxes and assessments receivable		<u>27,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,264</u>
Total assets	\$	<u>2,647,939</u>	<u>4,748,897</u>	<u>24,216</u>	<u>95,636</u>	<u>7,516,688</u>
Liabilities:						
Accounts payable and accrued expenses	\$	-	82,519	1,416	853	84,788
Accrued salaries and related payables		-	7,188	-	-	7,188
Customer deposits and unearned revenue		<u>17,501</u>	<u>90</u>	<u>-</u>	<u>-</u>	<u>17,591</u>
Total liabilities		<u>17,501</u>	<u>89,797</u>	<u>1,416</u>	<u>853</u>	<u>109,567</u>
Fund balance (note 9):						
Assigned		-	4,659,100	22,800	94,783	4,776,683
Unassigned		<u>2,630,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,630,438</u>
Total fund balance		<u>2,630,438</u>	<u>4,659,100</u>	<u>22,800</u>	<u>94,783</u>	<u>7,407,121</u>
Total liabilities and fund balance	\$	<u>2,647,939</u>	<u>4,748,897</u>	<u>24,216</u>	<u>95,636</u>	<u>7,516,688</u>

Reconciliation:

Fund balance of total governmental funds \$ 7,407,121

Amounts reported for governmental funding in the statement of net position is different because:

Non-current assets used in governmental funding are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the Statement of Net Position includes those non-current assets among the assets of the District as a whole.

Capital assets	3,888,889
Net pension asset	<u>2,076</u>

Pension contributions made during the fiscal year after the measurement date are reported as expenditures in governmental funds and as deferred outflows of resources in the government-wide financial statements. \$ 17,988

Recognized changes in net assumptions are reported as deferred outflows of resources in the government-wide financial statements. 15

Recognized portion due to net differences between the actual employer contribution and the proportionate share of contribution are reported as deferred outflows of resources in the government-wide financial statements. 19,823 37,826

Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities both current and long-term, are reported in the Statement of Net Position as follows:

Compensated absences	<u>(17,540)</u>
----------------------	-----------------

Recognized net difference between projected and actual earnings on pension plan investments are reported as deferred inflows of resources in the government-wide financial statements. (62)

Recognized portion due to net differences in proportions are reported as deferred inflows of resources in the government-wide financial statements. (5,321)

Recognized portion due to net differences between the expected and actual experience are reported as deferred inflows of resources in the government-wide financial statements. (107) (5,490)

Net position of governmental activities \$ 11,312,882

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021

	<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 758,911	597,000	32,000	-	1,387,911
Charges for services	179,283	1,821	-	-	181,104
Investment earnings	12,994	24,315	39	547	37,895
Other	6,501	3,078	-	294,768	304,347
Total revenues	<u>957,689</u>	<u>626,214</u>	<u>32,039</u>	<u>295,315</u>	<u>1,911,257</u>
Expenditures:					
General	4,953	-	-	-	4,953
Parks and recreation	-	392,210	-	-	392,210
Street lighting	-	-	15,840	-	15,840
Solid waste	-	-	-	20,387	20,387
Capital outlay	-	309,778	-	-	309,778
Total expenditures	<u>4,953</u>	<u>701,988</u>	<u>15,840</u>	<u>20,387</u>	<u>743,168</u>
Net income	<u>952,736</u>	<u>(75,774)</u>	<u>16,199</u>	<u>274,928</u>	<u>1,168,089</u>
Other financing sources (uses) (note 10):					
Transfers in – operational	-	275,000	-	-	275,000
Transfers (out) – operational	(440,000)	-	-	(275,000)	(715,000)
Total other financing sources (uses)	<u>(440,000)</u>	<u>275,000</u>	<u>-</u>	<u>(275,000)</u>	<u>(440,000)</u>
Change in fund balance	512,736	199,226	16,199	(72)	728,089
Fund balance, beginning of year	<u>2,117,702</u>	<u>4,459,874</u>	<u>6,601</u>	<u>94,855</u>	<u>6,679,032</u>
Fund balance, end of year	<u>\$ 2,630,438</u>	<u>4,659,100</u>	<u>22,800</u>	<u>94,783</u>	<u>7,407,121</u>

Reconciliation:

Net change in fund balance of total governmental funds \$ 728,089

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:

Capital outlay expense	309,778
Depreciation expense	(84,252)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:

Net change in compensated absences for the current period	(6,362)
Net change in pension obligations for the current period	(8,342)

Change in net position of governmental activities \$ 938,911

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2021

	<u>Water Enterprise</u>
Current assets:	
Cash and cash equivalents	\$ 13,346,297
Accrued interest receivable	14,891
Accounts receivable – water sales and services	1,060,016
Accounts receivable – other	64,306
Property taxes and assessments receivable	118,698
Materials and supplies inventory	301,285
Prepays and other assets	<u>299,705</u>
Total current assets	<u>15,205,198</u>
Non-current assets:	
Capital assets – not being depreciated	19,273,599
Capital assets – being depreciated, net	18,818,972
Net pension asset (note 6)	<u>18,670</u>
Total non-current assets	<u>38,111,241</u>
Total assets	<u>53,316,439</u>
Deferred outflows of resources:	
Deferred pension outflows	<u>340,423</u>
Current liabilities:	
Accounts payable and accrued expenses	1,889,736
Accrued salaries and related payables	102,369
Customer deposits and deferred revenue	69,433
Accrued interest on long-term debt	68,510
Due to other agency	584,541
Long-term liabilities – due within one year:	
Compensated absences	88,445
Long-term debt	<u>654,615</u>
Total current liabilities	<u>3,457,649</u>
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences	88,445
Long-term debt	<u>10,965,543</u>
Total non-current liabilities	<u>11,053,988</u>
Total liabilities	<u>14,511,637</u>
Deferred inflows of resources:	
Deferred pension inflows	<u>49,401</u>
Net position:	
Net investment in capital assets	26,472,413
Unrestricted	<u>12,623,411</u>
Total net position	<u>\$ 39,095,824</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Fund
For the Fiscal Year Ended June 30, 2021

	<u>Water Enterprise</u>
Operating revenues:	
Water consumption sales	\$ 3,815,864
Monthly meter service charge	2,433,016
Chromium-6 surcharge (note 10)	823,380
Special assessment	291,840
Other charges and services	<u>1,108,583</u>
Total operating revenues	<u>8,472,683</u>
Operating expenses:	
Source of supply – water related purchases	17,641
Pumping – utilities	1,110,590
Transmission and distribution	1,284,890
General and administrative	<u>3,724,754</u>
Total operating expenses	<u>6,137,875</u>
Operating income before depreciation	2,334,808
Depreciation	<u>(1,885,592)</u>
Operating income	<u>449,216</u>
Non-operating revenues (expenses):	
Property taxes	17,825
Interest expense – investments	(8,625)
Interest expense – long-term debt	(467,993)
Source of supply – settlement (note 13)	(327,655)
Water pipeline location service charges	82,118
Other non-operating revenues	353,786
Other non-operating expenses	<u>(61,504)</u>
Total non-operating revenues, net	<u>(412,048)</u>
Net income before transfers	<u>37,168</u>
Transfers from other funds	<u>440,000</u>
Change in net position	477,168
Net position, beginning of year	<u>38,618,656</u>
Net position, end of year	<u>\$ 39,095,824</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Cash Flows – Enterprise Fund
For the Fiscal Year Ended June 30, 2021

	<u>Water Enterprise</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 8,844,298
Cash paid to employees	(1,950,727)
Cash paid to vendors and suppliers	<u>(4,013,185)</u>
Net cash provided by operating activities	<u>2,880,386</u>
Cash flows from non-capital financing activities:	
Proceeds from property taxes	12,584
Transfer of property tax revenue from General fund	440,000
Proceeds from water pipeline location service charges	<u>82,118</u>
Net cash provided by non-capital financing activities	<u>534,702</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,739,751)
Proceeds from capital contributions	-
Proceeds from issuance of debt	5,567,101
Principal payments on long-term debt	(6,051,928)
Interest payments on long-term debt	<u>(540,977)</u>
Net cash used in capital and financing activities	<u>(2,765,555)</u>
Cash flows from investing activities:	
Interest earnings	<u>31,816</u>
Net cash provided by investing activities	<u>31,816</u>
Net increase in cash and cash equivalents	681,349
Cash and cash equivalents, beginning of year	<u>12,664,948</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,346,297</u></u>

Continued on next page

See accompanying notes to the basic financial statements

**Phelan Piñon Hills Community Services District
Statement of Cash Flows – Enterprise Fund, continued
For the Fiscal Year Ended June 30, 2021**

	<u>Water Enterprise</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>449,216</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,885,592
Source of supply – settlement	(327,655)
Other non-operating revenues	353,786
Other non-operating expenses	(61,504)
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
(Increase) decrease in assets and deferred outflows:	
Accounts receivable – water sales and services	(242,687)
Accounts receivable – other	245,443
Materials and supplies inventory	(77,157)
Prepays and other assets	(216,469)
Net pension asset	(18,670)
Deferred outflows of resources	158,537
Increase (decrease) in liabilities and deferred inflows:	
Accounts payable and accrued expenses	1,490,985
Accrued salaries and related payables	8,721
Customer deposits and deferred revenue	15,073
Due to other agency	(736,397)
Compensated absences	18,364
Net pension liability	(112,234)
Deferred inflows of resources	<u>47,442</u>
Total adjustments	<u>2,431,170</u>
Net cash provided by operating activities	\$ <u><u>2,880,386</u></u>
Non-cash investing, capital and financing transactions:	
Change in fair value of investments	\$ <u><u>(79,950)</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2021

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Phelan Piñon Hills Community Service District (District) was established through an election on February 5, 2008. With an 81% approval rating, the voters approved the formation of the District as a consolidation of three San Bernardino County Special District Service Areas of: Zone-L70 Water, CSA-9 Phelan Parks and Street Lighting, and CSA56-F1 Piñon Hills Parks. The San Bernardino County Special District Service Areas named above transferred \$31,439,131 in net assets to form the District.

This consolidation enabled the communities of Phelan and Piñon Hills to establish a form of self-governance while maintaining their individual rural integrity. The 128 square mile District is the largest Community Service District in San Bernardino County.

The primary component of the District is water service to over 6,900 connections. Parks and recreation are a vital component to any community. As part of the District there are two community centers. These centers are utilized for a wide range of activities and are available to the community for a nominal fee. Adjacent to the centers are two parks that have picnic tables and playgrounds. They are available from morning until dusk. The street lights serve primarily the business district of the District. The street lights are not owned by the District, but the District pays for the electricity use costs for the street lights.

The District normally conducts two monthly general meetings of the Board of Directors which are held on the first and third Wednesdays of the month in the Phelan Community Center.

B. Basis of Accounting and Measurement Focus

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants, and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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 purchases of water, 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, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund – This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Parks and Recreation – This fund is used to account for all parks and recreation activities within the District.

Street Lighting – This fund is used to account for all street lighting activities within the District.

Solid Waste – This fund is used to account for sanitation collection and recycling activities within the District.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

B. Basis of Accounting and Measurement Focus, continued

Enterprise Fund

Water – This fund accounts for the water transmission and distribution operations of the District.

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). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

Governmental Accounting Standards Board Statement No. 90

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 90, continued

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

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 District net position during the reporting period. Actual results could differ from those estimates.

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the disruption. 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 invested 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

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.

- State of California Local Area Investment Fund (LAIF)
- CalTRUST

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the District's position in the LAIF is the same as the value of its pooled share. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

CalTRUST is a Joint Powers Agency Authority created by local public agencies and is governed by a Board of Trustees made up of experienced local agency Treasurer and investment officers. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

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

5. Accounts Receivable – Water Sales and Services

The District extends credit to customers in the normal course of operations. Management views all accounts receivable as collectible.

6. Property Taxes and Assessments

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

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the San Bernardino County, which have not been credited to the District’s cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe, and pipe fittings for construction and repair to the District’s water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

8. Prepaids

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

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at acquisition value at the date of donation and/or historical cost. 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:

Governmental Activities

- Infrastructure, street lighting – 30 to 40 years
- Vehicles and equipment – 5 to 10 years

Business-Type Activities

- Facility and systems – 10 to 40 years
- Vehicles and equipment – 5 to 10 years

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

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

10. Deferred Outflows of Resources

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

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension asset. This amount will be amortized-in-full against the net pension asset in the next fiscal year.
- Deferred outflow for the net change in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net difference in actual and proportionate share of employer contribution, which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

11. Compensated Absences

Accrued Vacation – For each full time, (30 hours per week) employee, vacation days shall be earned per biweekly pay period. From year 1 through 4 years of employment, 80 vacation hours are earned, from year 5 through year 9, 120 vacation hours are earned, from year 10 through year 20, 160 vacation hours are earned, and after 20 years, 200 vacation hours are earned.

Part-time regular employees shall earn vacation prorated on actual hours worked. Exempt positions will, at the time of hire, begin at two (2) weeks per year. Vacation time may be accumulated up to a maximum of 160 hours (4 weeks). An employee may, at the discretion of the District, receive pay on their anniversary date for a maximum of forty (40) hours of his or her earned vacation instead of taking time off. New employees will not be authorized vacation time off until completion of one (1) year of continuous employment. If employment is terminated for any reason, the earned vacation will be paid through the last day of employment.

Accrued Sick Leave – Beginning with the date of employment, sick leave (at 3.69 hours per pay period) shall be credited to the employee. The biweekly pay record will reflect the current sick leave accumulation for each employee. Sick leave is not considered to be vacation and is to be used only during illness or injury. If sick leave is used up due to illness or injury, vacation can be used. An employee with no sick leave or vacation credit shall not receive compensation for days not worked due to illness or injury. Abuse of sick leave is grounds for discipline, up to and including dismissal.

Sick leave may be accumulated up to a maximum of 120 hours. After 120 hours are accumulated, an employee will receive, in December, 100% of the value of the unused sick leave, which exceeds the 120 hours maximum. At the end of each year's employment (anniversary date), 10% of the total accumulated sick leave shall vest in and become the property of the employee subject only to the employee's leaving the District under any condition other than discharge for cause. Upon retirement or resignation from the District, the employee shall be paid 10% for each year of service of the accumulated sick leave.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

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

12. Pensions

For purposes of measuring the net pension asset 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 timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2019
- Measurement Date: June 30, 2020
- Measurement Period: July 1, 2019 to June 30, 2020

13. Deferred Inflows of Resources

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

- Deferred outflow for the net difference between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred inflow for the net difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over a 5 year period.
- Deferred outflow for the net adjustment due to differences in the changes in proportions of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

14. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net Investment in Capital Assets** – Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

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

15. Fund Balance

The financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

16. Water Sales and Services

Water sales are billed on a monthly basis. Estimated unbilled water revenue through June 30 has been accrued at year-end for the enterprise funds.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

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

17. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or real estate developers desiring services that require capital connection expenditures or capacity commitment.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30 are classified as follows:

	<u>2021</u>
Governmental activity funds:	
General fund	\$ 2,601,833
Parks and recreation fund	4,748,317
Street lighting fund	24,216
Solid waste fund	<u>78,561</u>
Total	<u>7,452,927</u>
Business-type activity funds:	
Water fund	<u>13,346,297</u>
Total cash and cash equivalents	<u>\$ 20,799,224</u>

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

	<u>2021</u>
Cash on hand	\$ 2,000
Deposits held with financial institutions	171,383
Deposits held with San Bernardino County Treasurer	4,936
Deposits held with California Local Agency Investment Fund (LAI)	18,427,770
Deposits with CalTRUST – Medium Term Fund	<u>2,193,135</u>
Total	<u>\$ 20,799,224</u>

As of June 30 the District’s authorized deposits had the following maturities:

	<u>2021</u>
Deposits held with California Local Agency Investment Fund (LAI)	291 days
Deposits with CalTRUST – Medium Term Fund	756 days

Authorized Deposits and Investments

The District’s investment policy authorizes investments in certificates-of-deposit and the California Local Agency Investment Fund (LAIF). The District’s investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents, continued

Investment in the California State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 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 balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Amounts held with LAIF are highly liquid, as deposits can be converted to cash within a twenty-four-hour period without loss of accrued interest. LAIF detail may be obtained from the State of California Treasurer's website at www.treasurer.ca.gov/pmia-laif/index.asp.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the code.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents, continued

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; however, LAIF and CalTRUST are not rated.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with a government-sponsored agency, LAIF, is 89% of the District's total depository and investment portfolio. The District's deposit portfolio with CalTRUST is 10% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

(3) Capital Assets

Governmental Activities:

Changes in capital assets at June 30 were as follows:

	Balance 2020	Additions	Deletions/ Transfers	Balance 2021
Non-depreciable assets:				
Land	\$ 2,947,622	-	-	2,947,622
Construction in progress	21,356	309,778	-	331,134
Total non-depreciable assets	<u>2,968,978</u>	<u>309,778</u>	<u>-</u>	<u>3,278,756</u>
Depreciable assets:				
Building	540,000	-	-	540,000
Land improvements	1,401,575	-	-	1,401,575
Wells	24,840	-	-	24,840
Planning and development	119,240	-	-	119,240
Equipment	12,845	-	-	12,845
Total depreciable assets	<u>2,098,500</u>	<u>-</u>	<u>-</u>	<u>2,098,500</u>
Accumulated depreciation:				
Building	(476,051)	(5,150)	-	(481,201)
Land improvements	(819,658)	(73,374)	-	(893,032)
Wells	(24,840)	-	-	(24,840)
Planning and development	(75,163)	(5,086)	-	(80,249)
Equipment	(8,403)	(642)	-	(9,045)
Total accumulated depreciation	<u>(1,404,115)</u>	<u>(84,252)</u>	<u>-</u>	<u>(1,488,367)</u>
Total depreciable assets, net	<u>694,385</u>	<u>(84,252)</u>	<u>-</u>	<u>610,133</u>
Total capital assets, net	<u>\$ 3,663,363</u>	<u>225,526</u>	<u>-</u>	<u>3,888,889</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(3) Capital Assets, continued

Governmental Activities, continued:

The District had no governmental capital asset additions to depreciable assets during fiscal year 2021, but had additions of \$309,778 to construction in progress. There were no disposals during the fiscal year.

Business-type Activities:

Changes in capital assets at June 30, were as follows:

	<u>Balance 2020</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Land	\$ 1,722,399	-	-	1,722,399
Water rights	16,371,783	-	-	16,371,783
Construction in progress	<u>610,040</u>	<u>1,658,991</u>	<u>(1,089,614)</u>	<u>1,179,417</u>
Total non-depreciable assets	<u>18,704,222</u>	<u>1,658,991</u>	<u>(1,089,614)</u>	<u>19,273,599</u>
Depreciable assets:				
Building	5,904,631	250,545	-	6,155,176
Transmission and distribution mains	18,570,562	-	-	18,570,562
Reservoirs	4,187,496	-	-	4,187,496
Pumping Station	4,114,808	-	-	4,114,808
Wells	5,071,217	206,478	-	5,277,695
Tanks	2,184,312	97,411	-	2,281,723
Hydrants and telemetry control	191,670	-	-	191,670
Meters	1,921,146	527,450	(384,229)	2,064,367
Planning and development	3,719,487	-	-	3,719,487
Vehicles and equipment	<u>2,336,048</u>	<u>88,490</u>	<u>(27,398)</u>	<u>2,397,140</u>
Total depreciable assets	<u>48,201,377</u>	<u>1,170,374</u>	<u>(411,627)</u>	<u>48,960,124</u>
Accumulated depreciation:				
Building	(244,643)	(37,465)	-	(282,108)
Transmission and distribution mains	(13,267,968)	(353,962)	-	(13,621,930)
Reservoirs	(3,059,778)	(154,321)	-	(3,214,099)
Pumping Station	(3,139,246)	(103,499)	-	(3,242,745)
Wells	(2,112,979)	(162,754)	-	(2,275,733)
Tanks	(748,099)	(66,502)	-	(814,601)
Hydrants and telemetry control	(191,670)	-	-	(191,670)
Meters	(1,921,146)	(12,934)	384,229	(1,549,851)
Planning and development	(1,430,511)	(463,268)	-	(1,893,779)
Vehicles and equipment	<u>(2,551,147)</u>	<u>(530,887)</u>	<u>27,398</u>	<u>(3,054,636)</u>
Total accumulated depreciation	<u>(28,667,187)</u>	<u>(1,885,592)</u>	<u>411,627</u>	<u>(30,141,152)</u>
Total depreciable assets, net	<u>19,534,190</u>	<u>(715,218)</u>	<u>-</u>	<u>18,818,972</u>
Total capital assets, net	<u>\$ 38,238,412</u>	<u>943,773</u>	<u>(1,089,614)</u>	<u>38,092,571</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(3) Capital Assets, continued

Business-type Activities, continued:

Major enterprise fund capital asset additions during fiscal year 2021, include additions to construction in progress of \$1,658,991 that is comprised of the following capital project additions: Meters & installation of \$537,035, meter system infrastructure and software of \$273,436, administrative property of \$194,112, Well 9A pneumatic tank project of \$193,164, and various miscellaneous projects totaling \$461,244. Additions to depreciable assets sourcing from construction-in-progress include \$527,450 added to meters, \$250,545 added to building, \$206,478 added to wells, and \$97,411 added to tanks. District additions not sourcing from construction-in-progress included additions to vehicles and equipment of \$88,490. Disposals included a meter replacement and partial disposal of \$384,229 and a vehicle disposition of \$27,398.

Depreciation expense was charged to various functions for the year ended June 30 as follows:

	2021
Governmental activities:	
General government	\$ 5,150
Parks and Recreation	79,102
Total governmental activities	84,252
Business type activities:	
Water Fund	1,885,592
Total business-type activities	1,885,592
Total depreciation expense	\$ 1,969,844

(4) Compensated Absences

Compensated absences comprise unpaid vacation leave that accrue when benefits are fully vested and are determined annually. Compensated absences for governmental funds will generally be liquidated through the general fund. The balance in the proprietary fund will be liquidated through the water fund.

The change to compensated absence balances at June 30 were as follows:

Governmental:

	Balance 2020	Earned	Taken	Balance 2021	Due Within One Year	Due in more than one year
\$	11,178	25,182	(18,820)	17,540	8,770	8,770

Enterprise:

	Balance 2020	Earned	Taken	Balance 2021	Due Within One Year	Due in more than one year
\$	158,526	243,127	(224,763)	176,890	88,445	88,445

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(5) Long-term Debt

Changes in long-term debt at June 30 were as follows:

	<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2021</u>
CIEDB – 02-033	\$ 1,847,755	-	(1,847,755)	-
MFC – 14-003	3,971,671	-	(3,971,671)	-
State Dept of Transportation – 22784-00	110,187	-	(25,544)	84,643
CIEDB – 14-101	6,175,372	-	(206,958)	5,968,414
MFC – 21-002	-	5,567,101	-	5,567,101
Total loan payable	12,104,985	<u>5,567,101</u>	<u>(6,051,928)</u>	11,620,158
Less: current portion	<u>(569,596)</u>			<u>(654,615)</u>
Total non-current portion	\$ <u>11,535,389</u>			<u>10,965,543</u>

State Department of Transportation – 22784-00 Utility Agreement

In 2014, the State of California (State), acting by and through the Department of Transportation, proposed a project to widen roads to 4 lanes from SR-18 to I-15 and construct a 14ft wide Median Buffer that affected a portion of the District’s facilities. Thus, the District was ordered by the State to relocate identified facilities to avoid conflict with the State’s widening project to accommodate the State’s project. Total estimated costs of the State project amounted to \$710,829.

The State agreed to advance the District the sum of \$252,633, in accordance with Section 706 of the Streets and Highways Code, to cover the District’s portion of the cost of the work to be undertaken by the State. The interest rate shall be the rate of earnings of the Surplus Money Investment Fund and computation shall be in accordance with Section 1268.350 of the Code of Civil Procedure. The current annual interest rate for the amount advanced of \$252,633 is 0.912%. The term of the agreement is ten years from October 2014. Principal and interest payments are due quarterly during the year at January 1st, April 1st, July 1st, and October 1st.

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$	25,719	743	26,462
2023		25,954	507	26,461
2024		26,192	270	26,462
2025		6,778	45	6,823
Totals		84,643	<u>1,565</u>	<u>86,208</u>
Less: current portion		<u>(25,719)</u>		
Total non-current	\$	<u>58,924</u>		

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(5) Long-term Debt, continued

California Infrastructure & Economic Development Bank – 14-101 (previously 12-101) Installment Sale Agreement

In 2013, the District entered into an agreement for loan number 12-101 with the California Infrastructure and Economic Development Bank (CIEDB) to fund the purchase of water rights in the amount of \$7,500,000 with an interest rate of 2.29%. The term of the agreement is thirty years from December 2013. In March 2014, the loan was rewritten under number 14-101 with a reduced interest rate of 2.04%. Interest only payments are due each February 1st, with principal and interest payments due each August 1st.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 211,698	119,596	331,294
2023	216,546	115,228	331,774
2024	221,504	110,760	332,264
2025	226,577	106,190	332,767
2026	231,766	101,515	333,281
2027-2031	1,240,913	433,612	1,674,525
2032-2036	1,389,656	299,591	1,689,247
2037-2041	1,556,228	149,505	1,705,733
2042-2043	<u>673,526</u>	<u>13,818</u>	<u>687,344</u>
Totals	5,968,414	<u>1,449,815</u>	<u>7,418,229</u>
Less: current portion	<u>(211,698)</u>		
Total non-current	\$ <u>5,756,716</u>		

Municipal Finance Corporation – 21-002 Refinancing of CIEDB – 02-033 and MFC – 14-003

In 2021, the District entered into an agreement for loan number 21-002 with Municipal Finance Corporation (MFC) to refinance loan number 02-033 with CIEDB and loan number 14-003 with MFC. The District borrowed an amount of \$5,567,100.78 from MFC and paid the remaining balance of the CIEDB – 02-033 loan totaling \$1,746,963.99 and the MFC – 14-033 loan totaling \$3,820,136.79. The loan matures on August 1, 2034 and has an interest rate of 2.80%. Interest only payments are due each February 1st, with principal and interest payments due each August 1st.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 417,198	105,024	522,222
2023	382,892	139,330	522,222
2024	393,377	128,845	522,222
2025	404,149	118,073	522,222
2026	415,217	107,005	522,222
2027-2031	2,253,020	358,091	2,611,111
2032-2034	<u>1,301,248</u>	<u>68,385</u>	<u>1,369,633</u>
Totals	5,567,101	<u>1,024,753</u>	<u>6,591,854</u>
Less: current portion	<u>(417,198)</u>		
Total non-current	\$ <u>5,149,903</u>		

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and 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.

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 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. For employees hired prior to January 1, 2013, who are current members of CalPERS or a reciprocal agency as of December 31, 2012, and have not been separated from service from such agency for more than six months, the retirement benefit is 2.5% @ 55 years of age; highest single year of compensation. All other employees hired on or after January 1, 2013, the retirement benefit is 2.0% @ 62 years of age; 3 year final compensation.

The Plans' provision and benefits in effect at June 30, 2021 are summarized as follows:

	Miscellaneous Plan		
	Classic	New Classic	PEPRA
		On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Hire date	Prior to January 1, 2011		
Benefit formula	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 60	52 - 62
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.951%	6.915%	6.750%
Required employer contribution rates	10.823%	8.081%	6.985%

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Defined Benefit Pension Plan, continued

Contributions

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

For the fiscal year ended June 30, 2021 the contributions for the Plan were as follows:

		<u>Miscellaneous Plan</u>
Contributions – employer	\$	179,882
Contributions – employee (paid by employer)		<u>78,750</u>
Total employer paid contributions	\$	<u><u>258,632</u></u>

Net Pension Asset

As of the fiscal year ended June 30, 2021, the District reported a net pension asset for its proportionate share of the Plan as follows:

	<u>Proportionate Share</u>		
	<u>Governmental</u>	<u>Enterprise</u>	<u>Total</u>
Miscellaneous plan \$	<u>2,076</u>	<u>18,670</u>	<u>20,746</u>

The District's net pension asset is measured as the proportionate share of the Plan's net pension liability. The net pension liability of the Plan is measured as of June 30, 2020 (the measurement date), and the total pension asset for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 (the valuation date), rolled forward to June 30, 2020, 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 pension asset for the Plan as of the measurement date June 30, 2020, was as follows:

		<u>Miscellaneous</u>
Proportion – June 30, 2020		0.00122%
Proportion – June 30, 2021		<u>-0.00019%</u>
Change – (Increase)Decrease		<u><u>-0.00141%</u></u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the fiscal year ended June 30, 2021, the District recognized pension expense of \$263,299.

At June 30, 2021 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 179,882	-
Net difference between actual and expected experience	-	(1,072)
Net change in assumptions	149	-
Net difference between projected and actual earnings on plan investments	-	(616)
Net difference between actual contribution and proportionate share of contribution	198,218	-
Net adjustment due to differences in proportions of net pension liability	-	(53,203)
Total	<u>\$ 378,249</u>	<u>(54,891)</u>

As of June 30, 2021, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$179,882 will be recognized as an addition to the net pension asset for the fiscal year ended June 30, 2022.

At June 30, 2021, the District recognized other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension, which will be recognized as pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Net Outflows/(Inflows) of Resources</u>
2022	\$ 44,289
2023	59,433
2024	33,492
2025	6,262

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
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 increases	Varies by Entry Age and Service
Investment rate of return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality rate table*	Derived using CalPERS' Membership Data for all Funds
Post retirement benefit	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

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

Discount Rate

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

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

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Defined Benefit Pension Plan, continued

Discount Rate, continued

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1–10*</u>	<u>Real Return Year 11+**</u>
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

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

The following table presents the District’s proportionate share of the net position asset for the Plan, calculated using the discount rate, as well as what the District’s proportional share of the net pension liability (asset) 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.

At June 30, 2021, the discount rate comparison was as follows:

	<u>Discount Rate - 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate + 1%</u>
	<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
District's net pension liability (asset)	\$ <u>381,102</u>	<u>(20,746)</u>	<u>(352,781)</u>

Payable to the Pension Plan

At June 30, 2021, the District did not have an outstanding amount of contributions payable to the pension plan.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in separately issued CalPERS financial reports. See pages 64 through 66 for the Required Supplementary Schedules.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(7) Net Position

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	Total
Capital assets – not being depreciated	\$ 3,278,756	19,273,599	22,552,355
Capital assets – being depreciated, net	610,133	18,818,972	19,429,105
Long-term debt – current portion	-	(654,615)	(654,615)
Long-term debt – long-term portion	-	(10,965,543)	(10,965,543)
Total	<u>\$ 3,888,889</u>	<u>26,472,413</u>	<u>30,361,302</u>

Unrestricted net position is designated as follows:

	Governmental Activities	Business-type Activities	Total
General	\$ 2,647,310	-	2,647,310
Parks and recreation	4,659,100	-	4,659,100
Street lighting	22,800	-	22,800
Solid waste	94,783	-	94,783
Materials and supplies inventory	-	301,285	301,285
Prepaid expenses and other assets	-	299,705	299,705
Water operations and capital replacement	-	12,022,421	12,022,421
Total	<u>\$ 7,423,993</u>	<u>12,623,411</u>	<u>20,047,404</u>

(8) Internal Balances

Interfund Transfers

Interfund transfers consist of the following for the year ended June 30, 2021:

Transfer from	Transfer to	Purpose	Amount
<i>Interfund Operational Transfers:</i>			
General	Water	Operations	\$ 440,000
Solid Waste	Parks & Rec	Operations	<u>275,000</u>
Total transfers			<u>\$ 715,000</u>

Interfund Operational Transfers

During the fiscal year ended June 30, 2021, interfund transfers between the General and Water funds were designated by the Board to utilize resources from General fund revenue to help balance the Water fund budget. The funds were transferred accordingly.

During the fiscal year ended June 30, 2021, interfund transfers between the Parks and Recreation and Solid Waste funds were designated by the Board to transfer any funds remaining from current fiscal years operations from Solid Waste fund to assist in funding operations of the Parks and Recreation fund. The funds were transferred accordingly.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(9) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.15 for a description of these categories). Fund balances and their funding composition at June 30, 2021 is as follows:

Fund Balance Category		
Assigned:		
Parks and recreation	\$	4,659,100
Street lighting		22,800
Solid waste		94,783
Total assigned fund balance		4,776,683
Unassigned fund balance:		
General fund		2,630,438
Total fund balance	\$	7,407,121

(10) Chromium-6 Surcharge

The District’s water wells have traces of naturally occurring Chromium-6, which exceed the maximum contaminant levels (MCL) under new state regulations and must reduce the MCL to meet state goals. The District decided to blend its water supply with water that does not contain Chromium-6 to reduce the levels of Chromium-6. The District estimated the cost to comply with the new regulations to be approximately \$17 million. The District was seeking grants and low interest loans to help reduce the impact to the customers. The District was in the process of implementing its compliance project when the State Water Resources Control Board reversed its ruling, changing the MCL back to previous levels. It is expected that the MCL will be reduced again soon. The District spent approximately \$4.8 million toward the compliance project and has approved an additional \$3.2 million in projects to meet the state mandates. The total of approximately \$8 million for the revised projects is less than half of the original estimate of \$17 million. The District will continue to collect the surcharge from customers to recover the funds expended. At June 30, 2021, the Chromium-6 surcharge amounted to \$823,380 for the fiscal year.

(11) 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 Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA 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 SDRMA as follows:

- General and auto liability, personal injury and property damage, public officials’ and employees’ errors and omissions, up to \$2,500,000 for each wrongful act, subject to a \$500 deductible per occurrence for third party general liability property damage and \$1,000 per occurrence for third party auto liability property damage.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(11) Risk Management, continued

In addition to the above, the District also has the following insurance coverage:

- Employee and Public officials' dishonesty coverage up to \$1,000,000 per loss includes public employee or officials' dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined member (pool) total of \$800 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence, unless otherwise specified.
- Public officials' personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per elected/appointed official to which this coverage applies, subject to the terms and a \$1,000 deductible per claim.
- Workers compensation insurance with statutory limits per occurrence and employer's liability coverage up to \$5 million, subject to the terms, conditions, and exclusions as provided in the Memorandum of Coverage,.

Settled claims have not exceeded any of the coverage amounts in the last three fiscal years. There were no reductions in insurance coverage in fiscal year 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 material IBNR claim payables as of June 30, 2021.

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

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

Governmental Accounting Standards Board Statement No. 87

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

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

Governmental Accounting Standards Board Statement No. 89

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 89, continued

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.

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

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.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 92

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

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

Governmental Accounting Standards Board Statement No. 93

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 94

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

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

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

Governmental Accounting Standards Board Statement No. 96

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 97

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

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

(13) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Source of Supply Settlement

During the fiscal year ended June 30, 2020, the District settled a long-standing litigation with Antelope Valley Water Agency (AVWA) over the adjudication of a water basin near one of the District wells. The AVWA has billed the District for replacement water for the periods 2016 through 2020 totaling \$1,245,498. The District has accrued an additional \$327,655 for 2021 totaling \$1,573,153.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(13) Commitments and Contingencies, continued

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(14) Subsequent Event

Events occurring after June 30, 2021 have been evaluated for possible adjustment to the financial statements or disclosure as of October 20, 2021, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.



Required Supplementary Information

Phelan Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – General Fund
For the Year Ended June 30, 2021

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Property taxes	\$ 807,163	758,911	(48,252)
Charges for services	167,791	179,283	11,492
Investment earnings	31,134	12,994	(18,140)
Other	-	6,501	6,501
Total revenues	<u>1,006,088</u>	<u>957,689</u>	<u>(48,399)</u>
Expenditures:			
Salaries and benefits	256	914	(658)
Materials and services	38,042	4,039	34,003
Total expenditures	<u>38,298</u>	<u>4,953</u>	<u>33,345</u>
Excess of revenues over expenditures	<u>967,790</u>	<u>952,736</u>	<u>(15,054)</u>
Other financing sources(uses):			
Transfers out	<u>(260,000)</u>	<u>(440,000)</u>	<u>(180,000)</u>
Total other financing sources	<u>(260,000)</u>	<u>(440,000)</u>	<u>(180,000)</u>
Net change in fund balance	707,790	512,736	\$ <u><u>(195,054)</u></u>
Fund balance – beginning of period	<u>2,117,702</u>	<u>2,117,702</u>	
Fund balance – end of period	<u><u>\$ 2,825,492</u></u>	<u><u>2,630,438</u></u>	

Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Parks and Recreation Fund
For the Year Ended June 30, 2021

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Property taxes	\$ 494,000	597,000	103,000
Charges for services	39,566	1,821	(37,745)
Investment earnings	81,912	24,315	(57,597)
Other	-	3,078	3,078
Total revenues	<u>615,478</u>	<u>626,214</u>	<u>10,736</u>
Expenditures:			
Salaries and benefits	282,930	259,226	23,704
Materials and services	326,358	111,010	215,348
Utilities	4,119	21,974	(17,855)
Capital outlay	-	309,778	(309,778)
Total expenditures	<u>613,407</u>	<u>701,988</u>	<u>(88,581)</u>
Excess(deficiency) of revenues over expenditures	<u>2,071</u>	<u>(75,774)</u>	<u>(77,845)</u>
Other financing sources(uses):			
Transfers in	-	275,000	275,000
Total other financing sources	<u>-</u>	<u>275,000</u>	<u>275,000</u>
Net change in fund balance	2,071	199,226	\$ <u><u>197,155</u></u>
Fund balance – beginning of period	<u>4,459,874</u>	<u>4,459,874</u>	
Fund balance – end of period	<u>\$ 4,461,945</u>	<u>4,659,100</u>	

**Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Street Lighting Fund
For the Year Ended June 30, 2021**

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Property taxes	\$ 14,000	32,000	(18,000)
Investment earnings	<u>160</u>	<u>39</u>	<u>121</u>
Total revenues	<u>14,160</u>	<u>32,039</u>	<u>(18,000)</u>
Expenditures:			
Utilities	<u>8,568</u>	<u>15,840</u>	<u>(7,272)</u>
Total expenditures	<u>8,568</u>	<u>15,840</u>	<u>(7,272)</u>
Excess of revenues expenditures	<u>5,592</u>	<u>16,199</u>	<u>(10,728)</u>
Net change in fund balance	5,592	16,199	\$ <u><u>(10,728)</u></u>
Fund balance – beginning of period	<u>3,422</u>	<u>6,601</u>	
Fund balance – end of period	<u>\$ 9,014</u>	<u>22,800</u>	

Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Solid Waste Fund
For the Year Ended June 30, 2021

	Final Budgeted Amounts	Actual Amounts	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	547	547
Franchise fees	215,872	294,768	78,896
Other	1,329	-	(1,329)
Total revenues	217,201	295,315	78,114
Expenditures:			
Salaries and benefits	15,877	4,451	11,426
Materials and services	45,306	15,936	29,370
Total expenditures	61,183	20,387	40,796
Excess of revenues over expenditures	156,018	274,928	118,910
Other financing sources(uses):			
Transfers out	-	(275,000)	(275,000)
Total other financing sources	-	(275,000)	-
Net change in fund balance	156,018	(72)	\$ 118,910
Fund balance – beginning of period	94,855	94,855	
Fund balance – end of period	\$ 250,873	94,783	

Phelan Pinon Hills Community Service District
Notes to the Required Supplementary Information
June 30, 2021

Basis of Budgeting

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's General Manager and Administrative Services Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General, Parks and Recreation, Street Lighting, and Solid Waste Funds.

Phelan Pinon Hills Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability (Asset) (CalPERS)
As of June 30, 2021
Last Ten Years*

	Measurement Date						
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability(asset)	-0.00019%	0.00122%	0.00067%	0.00085%	0.00034%	-0.00064%	-0.00059%
District's proportionate share of the net pension liability(asset)	\$ (20,746)	124,704	64,920	84,343	29,638	(43,699)	(36,475)
District's covered payroll	\$ 1,581,807	1,492,311	1,356,824	1,501,918	1,260,143	1,184,091	1,106,270
District's proportionate share of the net pension liability as a percentage of its covered payroll	-1.31%	8.36%	4.78%	5.62%	2.35%	-3.69%	-3.30%
District's fiduciary net position as a percentage of the Plan's total pension liability	100.69%	95.18%	97.00%	95.74%	98.20%	103.19%	103.43%
District's proportionate share of aggregate employer contributions	\$ 135,846	102,066	80,076	71,772	60,285	48,918	29,783

Notes:

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..

Changes of Assumptions – 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.

Phelan Pinon Hills Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability (Asset) (CalPERS)
As of June 30, 2021
Last Ten Years*

Notes, 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..

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore, only seven years are shown.

Phelan Pinon Hills Community Service District
Schedules of Pension Plan Contributions (CalPERS)
As of June 30, 2021
Last Ten Years*

<u>Schedule of Pension Plan Contributions:</u>	<u>Fiscal Year Ended June 30, 2021</u>	<u>Fiscal Year Ended June 30, 2020</u>	<u>Fiscal Year Ended June 30, 2019</u>	<u>Fiscal Year Ended June 30, 2018</u>	<u>Fiscal Year Ended June 30, 2017</u>	<u>Fiscal Year Ended June 30, 2016</u>	<u>Fiscal Year Ended June 30, 2015</u>
Actuarially determined contribution	\$ 166,072	142,468	143,791	120,744	119,964	115,218	118,081
Contributions in relation to the actuarially determined contribution	<u>(179,882)</u>	<u>(373,647)</u>	<u>(373,647)</u>	<u>(108,247)</u>	<u>(125,840)</u>	<u>(117,285)</u>	<u>(118,081)</u>
Contribution deficiency (excess)	\$ <u>(13,810)</u>	<u>(231,179)</u>	<u>(229,856)</u>	<u>12,497</u>	<u>(5,876)</u>	<u>(2,067)</u>	<u>-</u>
Covered payroll	\$ 1,581,807	1,492,311	1,356,824	1,501,918	1,260,143	1,184,091	1,106,270
Contribution's as a percentage of covered payroll	<u>10.50%</u>	<u>9.55%</u>	<u>10.60%</u>	<u>8.04%</u>	<u>9.52%</u>	<u>9.73%</u>	<u>10.67%</u>

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore, only seven years are shown.

Statistical Section

**Phelan Pinon Hills Community Service District
Statistical Section**

This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

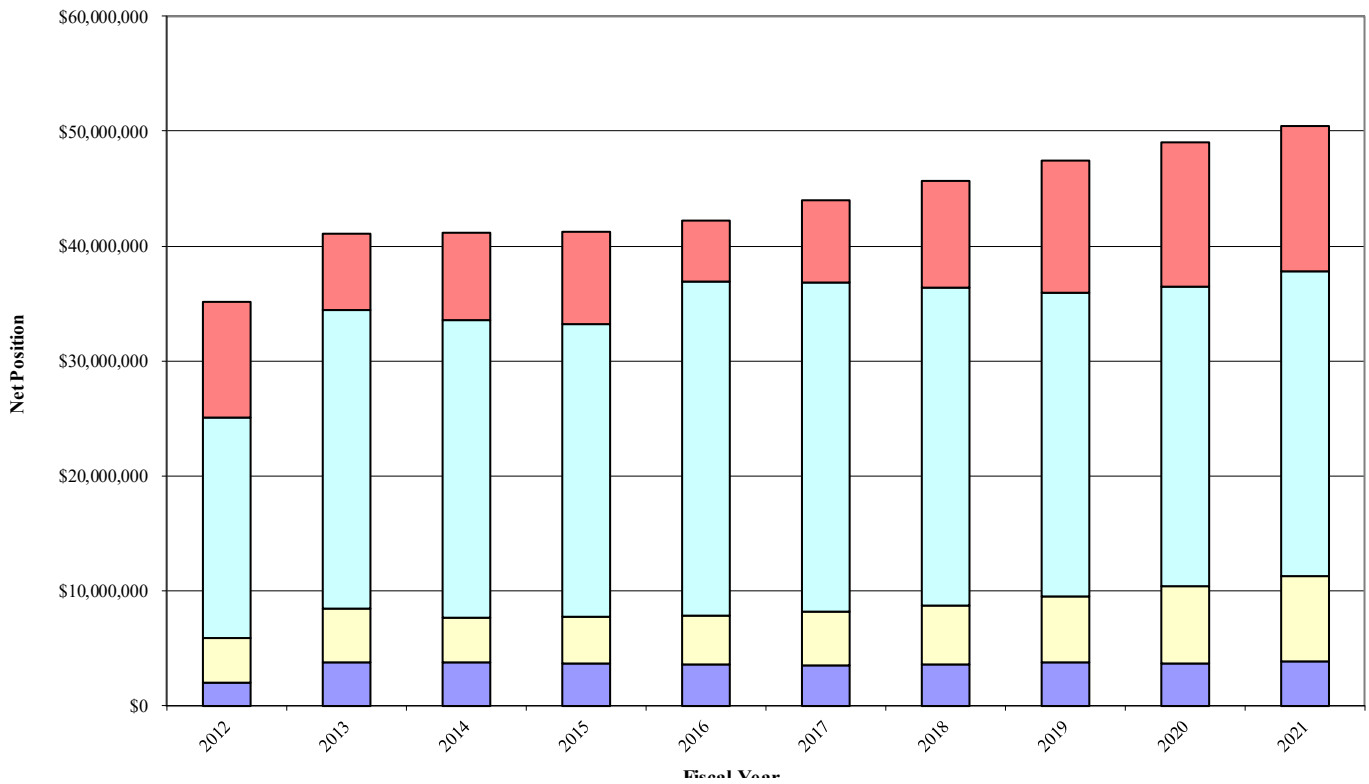
The following statistical information reflects the last ten full years of operations.

Table of Contents

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	68
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	77
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	80
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	82
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	83

**Phelan Pinon Hills Community Services District
Net Position by Component
Last Ten Fiscal Years**

	Fiscal Year					
	2012	2013	2014	2015	2016	2017
Governmental activities						
Invested in capital assets, net of related debt	\$ 2,020,112	3,799,590	3,770,219	3,694,550	3,579,586	3,528,938
Unrestricted	3,903,170	4,652,758	3,853,719	4,092,530	4,219,715	4,659,965
Total governmental activities net position	5,923,282	8,452,348	7,623,938	7,787,080	7,799,301	8,188,903
Business-type activities						
Invested in capital assets, net of related debt	\$ 19,116,771	26,019,217	25,906,040	25,401,202	29,120,934	28,643,010
Unrestricted	10,094,958	6,568,039	7,600,621	8,052,114	5,331,237	7,127,390
Total business-type activities net position	29,211,729	32,587,256	33,506,661	33,453,316	34,452,171	35,770,400
Primary government						
Invested in capital assets, net of related debt	\$ 21,136,883	29,818,807	29,676,259	29,095,752	32,700,520	32,171,948
Unrestricted	13,998,128	11,220,797	11,454,340	12,144,644	9,550,952	11,787,355
Total primary government net position	\$ 35,135,011	41,039,604	41,130,599	41,240,396	42,251,472	43,959,303



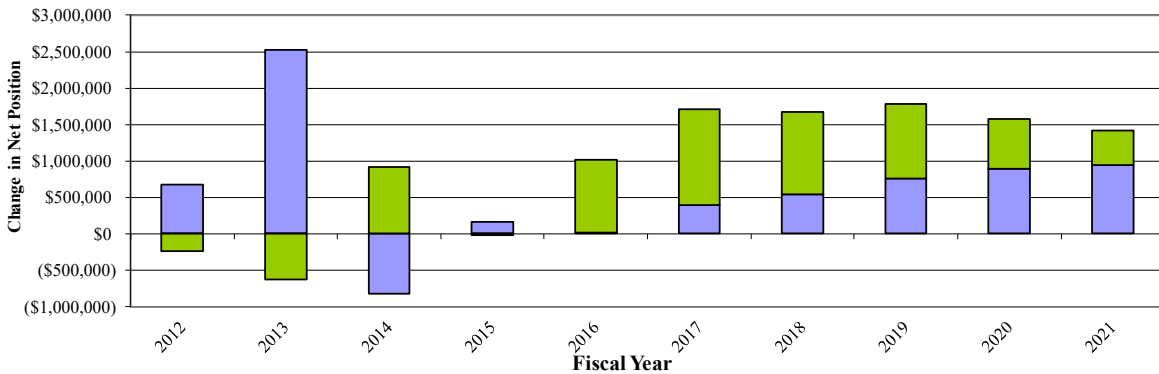
Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Net Position by Component
Last Ten Fiscal Years**

Fiscal Year			
2018	2019	2020	2021
3,552,883	3,726,239	3,663,363	3,888,889
<u>5,178,587</u>	<u>5,758,804</u>	<u>6,710,608</u>	<u>7,423,993</u>
<u>8,731,470</u>	<u>9,485,043</u>	<u>10,373,971</u>	<u>11,312,882</u>
27,628,901	26,460,380	26,133,427	26,472,413
<u>9,277,089</u>	<u>11,471,614</u>	<u>12,485,229</u>	<u>12,623,411</u>
<u>36,905,990</u>	<u>37,931,994</u>	<u>38,618,656</u>	<u>39,095,824</u>
31,181,784	30,186,619	29,796,790	30,361,302
<u>14,455,676</u>	<u>17,230,418</u>	<u>19,195,837</u>	<u>20,047,404</u>
<u>45,637,460</u>	<u>47,417,037</u>	<u>48,992,627</u>	<u>50,408,706</u>

Phelan Pinon Hills Community Services District Change in Net Position Last Ten Fiscal Years

	Fiscal Year					
	2012	2013	2014	2015	2016	2017
Expenses:						
Governmental activities:						
General government	\$ -	-	73,381	56,457	53,281	57,367
Parks and Recreation	240,564	1,259,421	433,697	396,400	380,024	424,872
Street Lighting	13,567	13,643	13,489	13,804	13,679	12,956
Solid Waste	-	450	2,173	9,377	10,133	35,209
Total governmental activities expenses	<u>254,131</u>	<u>1,273,514</u>	<u>522,740</u>	<u>476,038</u>	<u>457,117</u>	<u>530,404</u>
Business-type activities:						
Water enterprise	4,454,157	5,032,281	5,121,970	5,481,342	5,394,700	5,547,014
Total primary government expenses	<u>4,708,288</u>	<u>6,305,795</u>	<u>5,644,710</u>	<u>5,957,380</u>	<u>5,851,817</u>	<u>6,077,418</u>
Program Revenues:						
Governmental activities:						
Charges for services:						
General government	-	-	-	-	-	-
Parks and Recreation	67,186	25,199	13,065	19,758	21,488	24,220
Capital grants and contributions	-	2,772,000	-	-	-	-
Total governmental activities program revenues	<u>67,186</u>	<u>2,797,199</u>	<u>13,065</u>	<u>19,758</u>	<u>21,488</u>	<u>24,220</u>
Business-type activities:						
Charges for services – water enterprise	3,556,149	3,862,480	3,975,482	4,375,271	4,521,209	5,707,335
Assessments	355,749	303,841	299,818	295,257	309,682	299,385
Capital grants and contributions	39,514	-	-	-	436,492	125,902
Total business-type activities program revenues	<u>3,951,412</u>	<u>4,166,321</u>	<u>4,275,300</u>	<u>4,670,528</u>	<u>5,267,383</u>	<u>6,132,622</u>
Net (Expense)/Revenue:						
Governmental activities	(186,945)	1,523,685	(509,675)	(456,280)	(435,629)	(506,184)
Business-type activities	(502,745)	(865,960)	(846,670)	(810,814)	(127,317)	585,608
Total primary government net expense	<u>(689,690)</u>	<u>657,725</u>	<u>(1,356,345)</u>	<u>(1,267,094)</u>	<u>(562,946)</u>	<u>79,424</u>
General Revenues and Other Changes in Net Position:						
Governmental activities:						
Property taxes	843,931	845,706	895,649	930,801	1,003,264	1,062,550
Investment income	20,151	16,555	11,667	13,607	15,827	33,106
Other income	-	144,527	294,734	205,275	197,710	248,130
Transfers in (out)	-	(1,385)	(1,520,785)	(527,170)	(768,951)	(448,000)
Total governmental activities	<u>864,082</u>	<u>1,005,403</u>	<u>(318,735)</u>	<u>622,513</u>	<u>447,850</u>	<u>895,786</u>
Business-type activities:						
Property taxes	-	-	41,295	21,180	21,907	19,845
Investment income	51,390	29,110	13,924	37,455	23,862	27,612
Other income	215,685	209,846	190,071	199,483	311,452	237,164
Transfers in (out)	-	1,385	1,520,785	527,170	768,951	448,000
Total business-type activities	<u>267,075</u>	<u>240,341</u>	<u>1,766,075</u>	<u>785,288</u>	<u>1,126,172</u>	<u>732,621</u>
Total primary government	<u>1,131,157</u>	<u>1,245,744</u>	<u>1,447,340</u>	<u>1,407,801</u>	<u>1,574,022</u>	<u>1,628,407</u>
Changes in Net Position:						
Governmental activities	677,137	2,529,088	(828,410)	166,233	12,221	389,602
Business-type activities	(235,670)	(625,619)	919,405	(25,526)	998,855	1,318,229
Total primary government	<u>\$ 441,467</u>	<u>1,903,469</u>	<u>90,995</u>	<u>140,707</u>	<u>1,011,076</u>	<u>1,707,831</u>



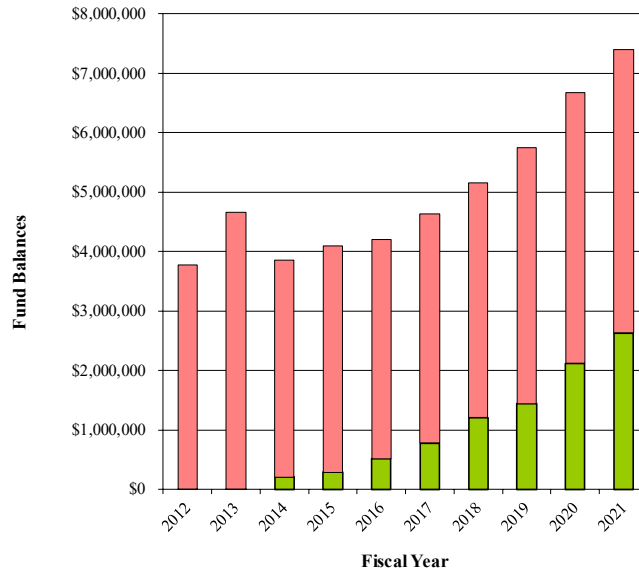
Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Change in Net Position
Last Ten Fiscal Years**

Fiscal Year			
2018	2019	2020	2021
19,600	12,239	8,165	4,953
459,355	455,646	457,238	491,166
13,077	12,437	14,466	15,840
37,840	51,323	39,307	20,387
529,872	531,645	519,176	532,346
6,345,754	6,921,131	8,666,424	8,889,244
6,875,626	7,452,776	9,185,600	9,421,590
-	-	-	179,283
25,098	23,105	17,143	1,821
-	-	-	-
25,098	23,105	17,143	181,104
6,253,646	6,415,471	6,988,852	8,180,843
296,438	290,188	288,222	291,840
-	-	-	-
6,550,084	6,705,659	7,277,074	8,472,683
(504,774)	(508,540)	(502,033)	(351,242)
204,330	(215,472)	(1,389,350)	(416,561)
(300,444)	(724,012)	(1,891,383)	(767,803)
1,127,118	1,206,628	1,281,699	1,387,911
56,933	143,109	135,202	37,895
266,490	366,645	427,169	304,347
(403,200)	(454,269)	(453,109)	(440,000)
1,047,341	1,262,113	1,390,961	1,290,153
24,707	16,399	16,235	17,825
74,493	282,611	309,495	-
428,860	488,197	1,297,173	435,904
403,200	454,269	453,109	440,000
931,260	1,241,476	2,076,012	893,729
1,978,601	2,503,589	3,466,973	2,183,882
542,567	753,573	888,928	938,911
1,135,590	1,026,004	686,662	477,168
1,678,157	1,779,577	1,575,590	1,416,079

Phelan Pinon Hills Community Services District Fund Balances, Governmental Funds Last Ten Fiscal Years

		Fiscal Year									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Fund: **											
Assigned	\$	-	-	-	-	-	-	-	-	-	-
Unassigned		-	-	204,907	288,875	516,149	773,776	1,204,949	1,440,024	2,117,702	2,630,438
Total general fund	\$	-	-	204,907	288,875	516,149	773,776	1,204,949	1,440,024	2,117,702	2,630,438
All Other Governmental Funds:											
Assigned	\$	3,773,709	4,658,680	3,655,592	3,812,880	3,690,087	3,856,038	3,952,427	4,302,299	4,561,330	4,776,683
Unassigned		-	-	-	-	-	-	-	-	-	-
Total all other governmental	\$	3,773,709	4,658,680	3,655,592	3,812,880	3,690,087	3,856,038	3,952,427	4,302,299	4,561,330	4,776,683

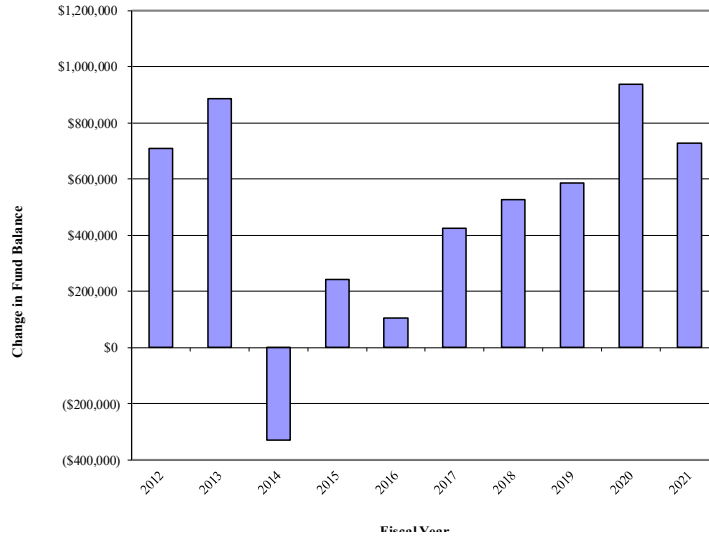


Note: * Governmental Accounting Standards Board No. 54 - *Fund Balance Reporting and Governmental Fund Type Definition* was adopted in 2011.
 ** Reporting for the General Fund was initiated in fiscal year 2014.

Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Changes in Fund Balances - Governmental Funds Last Ten Fiscal Years

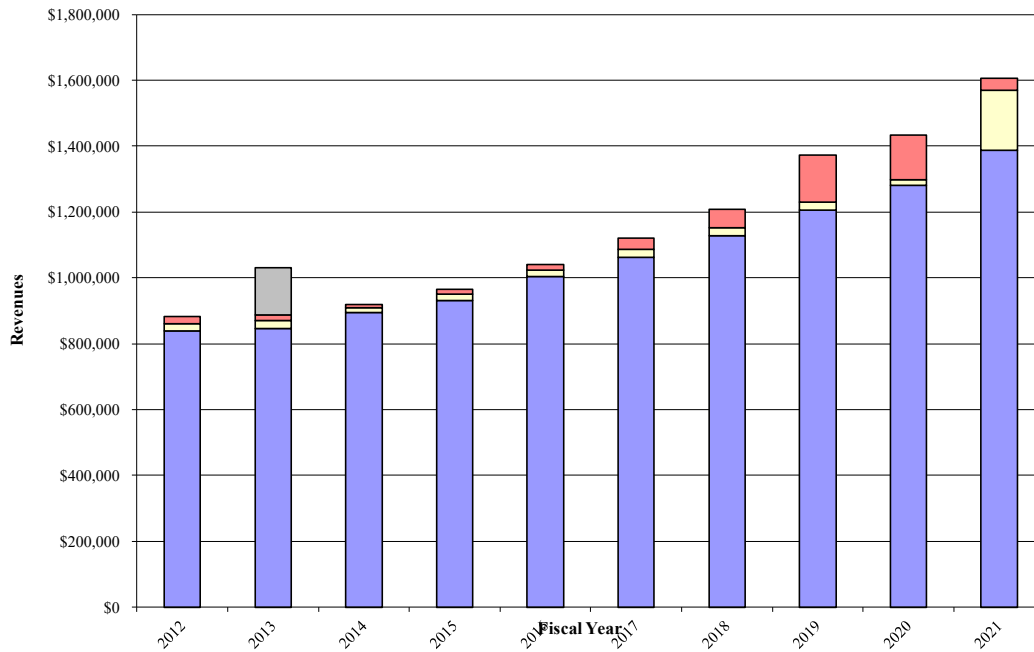
	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues	\$ 881,727	1,031,987	1,215,115	1,169,441	1,238,289	1,368,006	1,475,639	1,739,487	1,861,212	1,911,257
Expenditures	172,241	145,631	492,511	401,015	364,857	496,428	544,877	700,271	471,394	743,168
Excess of revenues over (under) expenditures	709,486	886,356	722,604	768,426	873,432	871,578	930,762	1,039,216	1,389,818	1,168,089
Other Financing Sources (Uses)										
Proceeds from long-term debt	-	-	-	-	-	-	-	-	-	-
Operating transfers in	-	-	-	7,055	322,141	287,998	167,712	130,000	200,000	275,000
Operating transfers out	-	(1,385)	(1,052,785)	(534,225)	(1,091,092)	(735,998)	(570,912)	(584,269)	(653,109)	(715,000)
Total Other Financing Sources (Uses)	-	(1,385)	(1,052,785)	(527,170)	(768,951)	(448,000)	(403,200)	(454,269)	(453,109)	(440,000)
Net change in fund balances	\$ 709,486	884,971	(330,181)	241,256	104,481	423,578	527,562	584,947	936,709	728,089



Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Governmental Fund Revenues Last Ten Fiscal Years

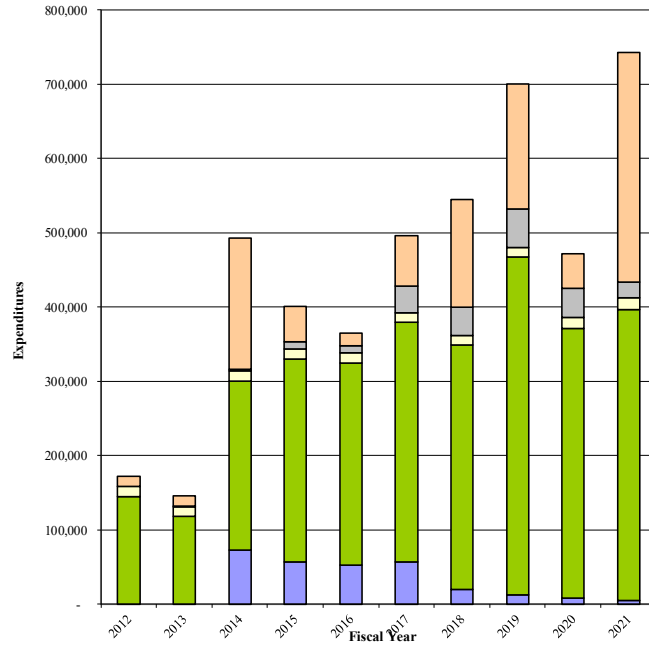
		Fiscal Year									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Property taxes	\$	837,927	845,706	895,649	930,801	1,003,264	1,062,550	1,127,118	1,206,628	1,281,699	1,387,911
Charges for services		23,649	25,199	13,065	19,758	21,488	24,220	25,098	23,105	17,142	181,104
Interest		20,151	16,555	11,667	13,607	15,827	33,106	56,933	143,109	135,202	37,895
Other		-	144,527	294,734	205,275	197,710	248,130	266,490	366,645	427,169	304,347
Total governmental revenues	\$	881,727	1,031,987	1,215,115	1,169,441	1,238,289	1,368,006	1,475,639	1,739,487	1,861,212	1,911,257



Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Governmental Fund Expenditures Last Ten Fiscal Years

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General government *	\$ -	-	73,381	56,457	53,281	57,367	19,600	12,239	8,165	4,953
Parks and Recreation	145,107	117,895	227,373	273,906	271,147	322,514	328,981	455,646	363,072	392,210
Street Lighting	13,567	13,643	13,489	13,804	13,679	12,956	13,077	12,437	14,466	15,840
Solid Waste **	-	450	2,173	9,377	10,133	35,209	37,840	51,323	39,307	20,387
Capital outlay	13,567	13,643	176,095	47,471	16,617	68,382	145,379	168,626	46,384	309,778
Total governmental expenditures	\$ 172,241	145,631	492,511	401,015	364,857	496,428	544,877	700,271	471,394	743,168



Note: * Reporting for the General Fund was initiated in fiscal year 2014.
 ** Reporting for the Solid Waste Fund started in fiscal year 2013.

Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Assessed Valuations – San Bernardino County
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Secured San Bernardino County</u>	<u>Unsecured San Bernardino County</u>	<u>Totals</u>	<u>Total Direct Tax Rate</u>
2012	\$ 1,290,225,544	14,062,282	1,304,287,826	1.000000%
2013	1,263,174,951	12,969,370	1,276,144,321	1.000000%
2014	1,291,389,085	13,060,922	1,304,450,007	1.000000%
2015	1,348,979,703	13,974,369	1,362,954,072	1.000000%
2016	1,424,385,527	12,009,283	1,436,394,810	1.000000%
2017	1,471,330,134	13,123,355	1,484,453,489	1.000000%
2018	1,546,141,340	12,545,948	1,558,687,288	1.000000%
2019	1,625,020,213	14,567,365	1,639,587,578	1.000000%
2020	1,770,471,518	22,191,400	1,792,662,918	1.000000%
2021	1,862,645,170	21,441,000	1,841,204,170	1.000000%

Note: Property in San Bernardino County is reassessed each year. Property is assessed at actual value, therefore, the assessed values are equal to the actual values.

Source: San Bernardino County Assessor offices

**Phelan Pinon Hills Community Services District
Water Sales Revenue and Water Production
Last Ten Fiscal Years**

Fiscal Year	Water Sales Revenue				Quantity of Water Sold (HCF*)			
	Residential	Commercial	Industrial	Total	Residential	Commercial	Industrial	Total
2012	\$ 3,374,117	150,628	2,034	3,526,779	1,027,852	63,206	397	1,091,455
2013	3,625,890	157,581	15,225	3,798,696	1,150,776	68,000	397	1,219,173
2014	3,745,316	144,093	12,995	3,902,404	1,136,271	60,273	6,277	1,202,821
2015	3,991,657	196,573	25,860	4,214,090	1,088,662	75,237	7,963	1,171,862
2016	4,090,260	240,168	7,577	4,338,006	837,199	71,340	7,577	916,116
2017	4,312,101	298,476	52,395	4,662,972	895,380	90,471	6,755	992,606
2018	4,659,051	352,203	59,405	5,070,659	921,532	104,201	6,725	1,032,458
2019	4,648,826	364,211	32,263	5,045,300	886,294	102,579	3,842	992,715
2020	5,822,499	364,154	67,574	6,254,227	910,164	96,086	10,349	1,016,599
2021	6,465,403	377,033	227,346	7,069,782	1,041,855	102,259	37,500	1,181,614

Note: * Hundred Cubic Feet (HCF) = 748 gallons.

Source: Phelan Pinon Hills Community Service District audited financial statements and billing records

Phelan Pinon Hills Community Services District

Water Rates

Last Ten Fiscal Years

Commodity Charge		March 2008 -									
Tiered	Tier (HCF)	Feb. 2013	March 1, 2013	January 1, 2014	January 1, 2015	February 1, 2016	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019	July 1, 2020
Tier 1	0-25	\$ na	1.69	1.89	2.02	2.50	2.22	2.35	2.39	2.53	2.53
Tier 2	25.01+	na	1.95	2.18	2.33	3.95	3.51	3.71	3.77	4.00	4.00
Tier 1	0-14	1.81	na	na	na	na	na	na	na	na	na
Tier 2	14.01-80	2.01	na	na	na	na	na	na	na	na	na
Tier 3	80.01+	2.08	na	na	na	na	na	na	na	na	na

Meter Charge		Bi-Monthly				Monthly						
		March 2009 - Feb. 2013	March 1, 2013	January 1, 2014	January 1, 2015	January 1, 2016	February 1, 2016	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019	July 1, 2020
3/4"	\$	26.02	31.37	33.75	35.77	18.96	18.96	16.97	17.90	18.16	19.16	19.16
1"		37.20	41.65	44.81	47.49	25.17	29.22	25.91	27.46	27.89	29.56	29.56
1.5"		64.20	67.35	72.45	76.80	40.70	54.87	48.24	51.34	52.21	55.54	55.54
2"		93.50	98.19	105.63	111.97	59.34	85.65	75.04	80.00	81.39	86.72	86.72
3"		159.64	170.14	183.05	194.03	102.83	157.47	137.57	146.87	149.47	159.47	159.47
4"		245.64	272.94	293.64	311.26	164.96	260.07	226.91	242.41	246.74	263.41	263.41
6"		453.10	529.93	570.12	604.32	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8"		669.24	838.32	901.90	956.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Phelan Pinon Hills Community Service District billing records

Note: July 1, 2020 rate increase was deferred until February 1, 2021 due to COVID

**Phelan Pinon Hills Community Services District
Water Customer Demographics
Last Ten Fiscal Years**

Customer by Type

Connection Type	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Residential	6,712	6,714	6,719	6,735	6,753	6,780	6,800	6,847	6,925	7,013
Commercial	50	51	51	51	49	42	67	71	74	77
Industrial	-	3	4	4	4	7	4	7	11	14
Other	2	-	-	-	-	-	-	-	-	-
Total	6,764	6,768	6,774	6,790	6,806	6,806	6,871	6,925	7,010	7,104

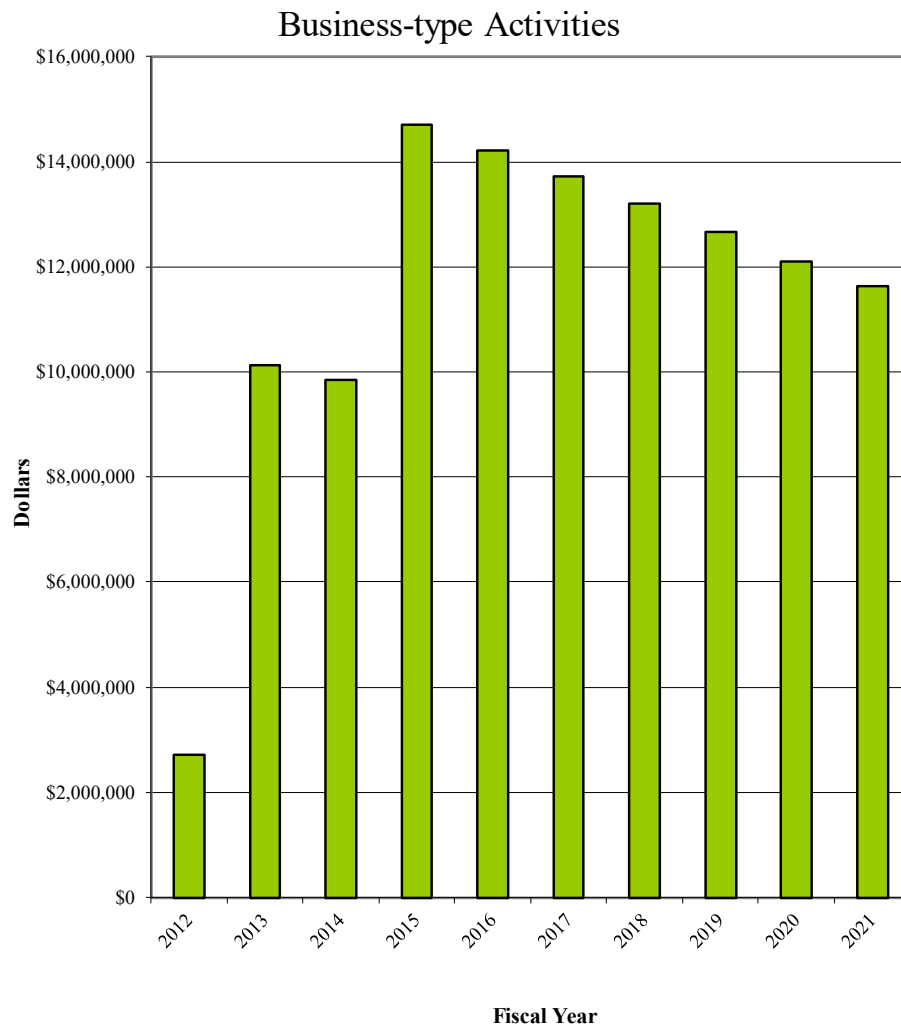
Ten Largest System Users

Customer	Percent of System Use	Percent of System Revenues	Customer Type
Snowline JUSD	8.33%	4.81%	Institutional
Wendy's Water Truck Company	0.93%	0.82%	Commercial
Boaming Huang	0.35%	0.24%	Commercial
Myog Cha (Grace) Pak	0.25%	0.17%	Residential
County of San Bernardino	0.24%	0.24%	Residential
Barry Tuck	0.20%	0.14%	Residential
Theodore Thompson Jr	0.19%	0.13%	Residential
John R & Martha J Browne	0.18%	0.13%	Residential
Daniel & Karla Betcher	0.18%	0.12%	Residential
Conan Trust	0.15%	0.11%	Residential
Totals	11.00%	6.91%	

Source: Phelan Pinon Hills Community Service District billing records

**Phelan Pinon Hills Community Services District
Ratios of Outstanding Debt
Last Ten Fiscal Years**

Fiscal Year	Business-type Activities	Total Debt	Per Capita	As a Share of Personal Income	
				Total	Business-type Activities
2012	\$ 2,717,596	2,717,596	125.73	0.42%	0.42%
2013	10,121,499	10,121,499	468.05	1.64%	1.64%
2014	9,845,414	9,845,414	454.94	1.60%	1.60%
2015	14,711,230	14,711,230	678.18	2.07%	2.07%
2016	14,219,582	14,219,582	653.98	1.26%	1.26%
2017	13,715,100	13,715,100	635.66	1.13%	1.13%
2018	13,194,348	13,194,348	541.82	0.90%	0.90%
2019	12,657,814	12,657,814	516.31	0.81%	0.81%
2020	12,104,985	12,104,985	N/A	N/A	N/A
2021	11,620,158	11,620,158	N/A	N/A	N/A



Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Debt Service Ratio
Last Ten Fiscal Years**

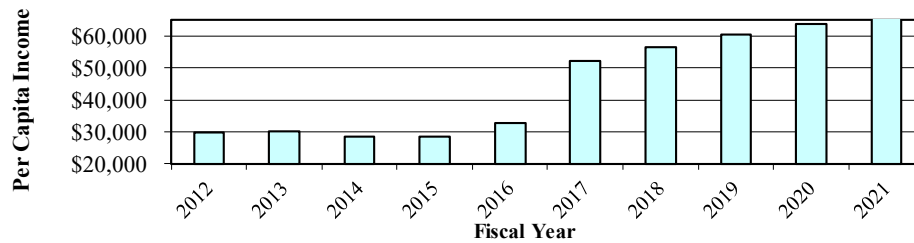
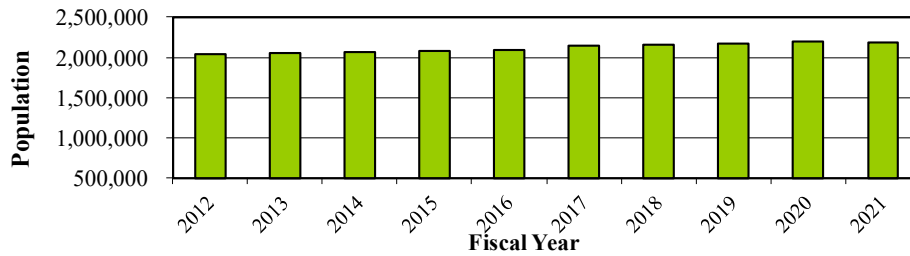
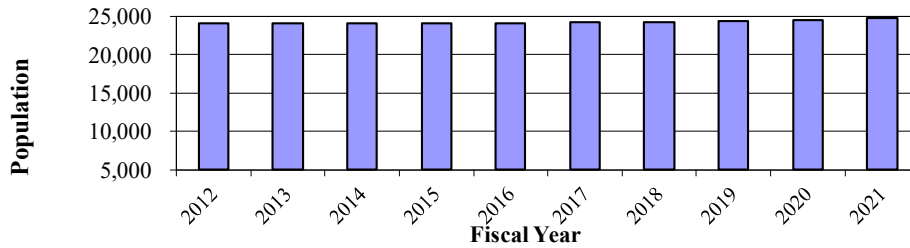
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>
Gross Revenues:											
Water Fund Revenues	\$ 4,178,972	4,405,277	4,479,295	4,908,496	5,188,112	6,291,341	6,550,084	6,705,659	7,277,074	8,472,683	8,472,683
Total Revenue	4,178,972	4,405,277	4,479,295	4,908,496	5,188,112	6,291,341	6,550,084	6,705,659	7,277,074	8,472,683	8,472,683
Operating Expenses:											
Water Fund Expenses	(4,454,156)	(5,032,281)	(4,862,383)	(5,104,683)	(4,120,250)	(4,070,611)	(4,016,927)	(4,521,993)	(5,069,095)	(6,137,875)	(6,137,875)
Less Depreciation	1,292,064	1,214,772	1,229,221	1,257,916	1,274,450	1,476,403	1,924,171	2,010,956	1,980,658	1,885,592	1,885,592
Total Water Fund Expenses	(3,162,092)	(3,817,509)	(3,633,162)	(3,846,767)	(2,845,800)	(2,594,208)	(2,092,756)	(2,511,037)	(3,088,437)	(4,252,283)	(4,252,283)
Net Revenues Water Fund	1,016,880	587,768	846,133	1,061,730	2,342,312	3,697,133	4,457,328	4,194,622	4,188,637	4,220,400	4,220,400
Senior and Parity Debt Service											
2002 Water Facilities	209,792	199,366	199,077	198,779	198,470	198,151	197,820	189,146	188,999	-	-
2012 Water Rights Acquisition	-	26,240	268,852	351,719	350,061	349,925	349,787	327,651	330,825	331,294	331,294
2014 Solar Project	-	-	-	150,150	357,591	357,591	357,591	329,919	357,592	-	-
2014 Hwy 138	-	-	-	13,231	26,462	35,943	26,461	26,461	26,462	26,462	26,462
2021 Loan Refinance	-	-	-	-	-	-	-	-	-	522,222	522,222
Combined Total Annual Debt	\$ 209,792	225,606	467,929	713,879	932,584	941,610	931,659	873,177	903,878	879,978	879,978
Debt Service Coverage (times)	4.85	2.61	1.81	1.49	2.51	3.93	4.78	4.80	4.63	4.80	4.80

Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Demographic and Economic Statistics Last Ten Fiscal Years

County of San Bernardino⁽²⁾

Year	Phelan & Piñon Hills Population (1)	Unemployment Rate	Population	Median Single-Family Home Price	Personal Income per Capita/ Median Household Income
2012	24,013	14.0%	2,046,619	133,950	29,703
2013	24,028	12.6%	2,059,699	145,710	30,081
2014	24,040	9.9%	2,068,610	180,270	28,583
2015	24,058	8.1%	2,085,699	216,570	28,454
2016	24,107	5.8%	2,088,371	230,180	32,747
2017	24,164	6.2%	2,140,096	248,000	52,041
2018	24,225	5.8%	2,160,256	266,250	56,337
2019	24,352	4.2%	2,174,938	290,000	60,420
2020	24,516	3.9%	2,192,203	315,000	63,857
2021	24,725	9.2%	2,180,537	380,250	67,903



Sources: California Department of Finance and California Labor Market Info

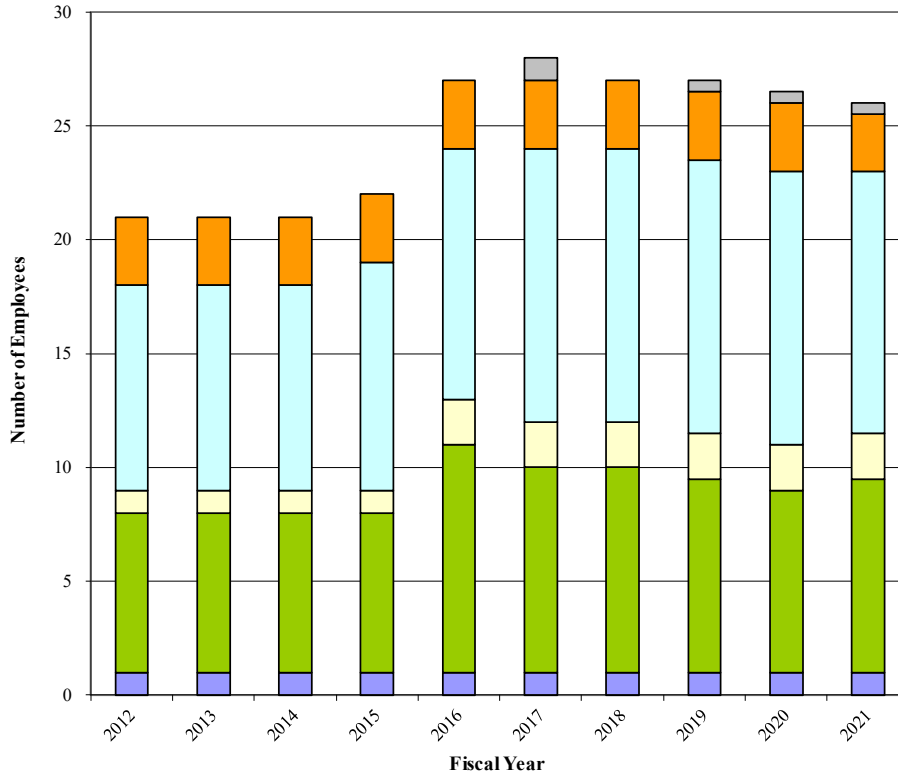
Notes:

- (1) Data is derived from the 2010 census and adjusted for the average population per meter connection. The District has chosen to use this methodology since the District believes that it provides the best approximation of area population.
- (2) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District: Website for State of California, Employment Development Department, San Bernardino County Profile

Phelan Pinon Hills Community Services District Operating and Capacity Indicators – By Function Last Ten Fiscal Years

District Employees by Department

Department	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021
General Manager	1	1	1	1	1	1	1	1	1	1.0	1.0
Administration	7	7	7	7	10	9	9	8.5	8.0	8.5	8.5
Engineering	1	1	1	1	2	2	2	2	2	2.0	2.0
Water Operations	9	9	9	10	11	12	12	12	12	11.5	11.5
Parks & Recreation	3	3	3	3	3	3	3	3	3	2.5	2.5
Street Lighting	0	0	0	0	0	0	0	0	0	0.0	0.0
Solid Waste	0	0	0	0	0	1	0	0.5	0.5	0.5	0.5
	21	21	21	22	27	28	27	27	27	26	26



Source: Phelan Pinon Hills Community Services District Records

**Phelan Pinon Hills Community Services District
Miscellaneous Statistics
June 30, 2021**

Water System:

Number of Pressure Zones	11
Miles of Water Main	353
Reservoirs	35
Wells	11
Booster Stations	24
Booster Pumps	63
Pressure Reducing Stations	32
Service Connections (Meters)	7,104

Parks and Recreation Facilities:

Number of Parks	2
Number of Community Centers	2
Number of Senior Centers	2

Street Lighting:

Number of Street Lights	92
Number of Lights at RR Crossings	1

Solid Waste and Recycling:

Number of Residential Customers	4,480
Number of Commercial Customers	107

Misc. Statistical Information

Population	25,058
Service Area	128 square miles
Employees	26 Full-time
Enterprise Fund Budget 2020/2021	8,524,341
Government Fund Budget 2020/2021	726,920
Capital Budget 2020/2021	542,000

Source: Phelan Pinon Hills Community Services District Records

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Fedak & Brown LLP

Certified Public Accountants

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

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Phelan Piñon Hills Community Services District
Phelan, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Phelan Piñon Hills Community Services District (District), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing opinions 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
October 20, 2021