



**PURISSIMA HILLS WATER DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 AND 2020**

**JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS**

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PURISSIMA HILLS WATER DISTRICT

BOARD OF DIRECTORS

JUNE 30, 2021

<u>Name</u>	<u>Office</u>	<u>Term Expires December</u>
Brian Holtz	President	2024
Steve Jordan	Vice President	2024
Sarah Stone	Director	2022
Lucille Glassman	Director	2024
Anand Ranganathan	Director	2022

ADMINISTRATION

Phil Witt
General Manager

PURISSIMA HILLS WATER DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Required Supplementary Information	
Schedule of the District's Proportionate Share of the Net Pension Liability	28
Schedule of Pension Contributions	29
Other Independent Auditor's Report	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards	30
Schedule of Prior Year Findings and Recommendations	32



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Purissima Hills Water District
Los Altos Hills, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Purissima Hills Water District (the District) as of June 30, 2021 and 2020 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Purissima Hills Water District as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

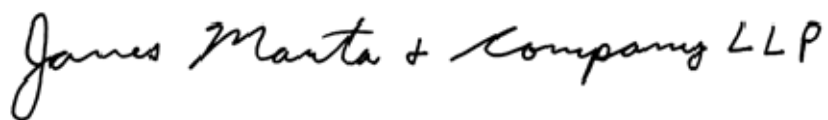
Other Information

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions 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 (GASB) 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2022 on our consideration of Purissima Hills Water District's internal control over financial reporting and our tests of its compliance with 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Purissima Hills Water District's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 13, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

PURISSIMA HILLS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Purissima Hills Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2021 and 2020. The two-year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 6%, or \$1,839,110, to \$31,640,622 in fiscal year 2021 as a result of current year operations. In 2020, the District's net position increased 4% or \$1,143,990 to \$29,801,512 as a result of previous year operations.
- The District's operating revenues increased 22%, or \$1,578,175, in 2021 primarily due a \$939,259 increase in water consumption sales. In 2020, the District's operating revenues increased 18%, or \$1,095,643, primarily due to a \$1,004,295 increase in water consumption sales. These increases are mostly attributed to COVID-19 and dry weather.
- The District's operating expenses increased 12%, or \$908,111, in 2021 primarily due to an increase in water purchases of \$298,923 and an increase in transmission and distribution expenses of \$328,438. The District's operating expenses increased 11%, or \$717,564, in 2020 primarily due to an increase in water purchases of \$421,790 and an increase in transmission and distribution expenses of \$202,381.

Required Financial Statements

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

The Statement of Net Position includes all of the District's investments in resources (assets), and deferred outflows of resources, the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

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

PURISSIMA HILLS WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Financial Analysis of the District, continued

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements start on page 11.

Statements of Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2019</u>
Current and Other Assets	\$ 9,255,623	\$ 10,998,649	\$ (1,743,026)	-16%	\$ 1,722,865
Capital Assets, Net	31,163,968	28,138,160	3,025,808	11%	27,869,734
Total Assets	<u>40,419,591</u>	<u>39,136,809</u>	<u>1,282,782</u>	3%	<u>29,592,599</u>
Deferred Outflows of Resources	<u>250,167</u>	<u>309,628</u>	<u>(59,461)</u>	-19%	<u>258,878</u>
Current and Other Liabilities	1,246,240	1,480,113	(233,873)	-16%	577,875
Long-Term Liabilities	7,702,973	8,052,271	(349,298)	-4%	528,214
Total Liabilities	<u>8,949,213</u>	<u>9,532,384</u>	<u>(583,171)</u>	-6%	<u>1,106,089</u>
Deferred Inflows of Resources	<u>79,923</u>	<u>112,541</u>	<u>(32,618)</u>	-29%	<u>87,866</u>
Net Investment in Capital Assets	31,163,968	28,138,160	3,025,808	11%	27,869,734
Unrestricted	476,654	1,663,352	(1,186,698)	-71%	787,788
Total Net Position	<u>\$ 31,640,622</u>	<u>\$ 29,801,512</u>	<u>\$ 1,839,110</u>	6%	<u>\$ 28,657,522</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial health. In the case of the District, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$31,640,622 and \$29,801,512 as of June 30, 2021 and 2020, respectively.

By far the largest portion of the District's net position (98% as of June 30, 2021 and 94% as of June 30, 2020) reflects the District's investment in capital assets (net of accumulated depreciation) less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending. At the end of fiscal years 2021 and 2020, the District's unrestricted net position that may be utilized in future years was \$476,654 and \$1,663,352, respectively.

PURISSIMA HILLS WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

Statements of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2019</u>
Operating Revenue	\$ 8,722,691	\$ 7,144,516	\$ 1,578,175	22%	\$ 6,048,873
Non-Operating Revenue	1,533,183	1,516,078	17,105	1%	1,347,907
Total Revenues	<u>10,255,874</u>	<u>8,660,594</u>	<u>1,595,280</u>	18%	<u>7,396,780</u>
Operating Expenses	8,249,704	7,341,593	908,111	12%	6,624,029
Non-Operating Expenses	167,060	175,011	(7,951)	0%	-
Total Expenses	<u>8,416,764</u>	<u>7,516,604</u>	<u>900,160</u>	12%	<u>6,624,029</u>
Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	0%	<u>-</u>
Change in Net Position	1,839,110	1,143,990	695,120	61%	772,751
Net Position, Beginning	<u>29,801,512</u>	<u>28,657,522</u>	<u>1,143,990</u>	4%	<u>27,884,771</u>
Net Position, Ending	<u>\$ 31,640,622</u>	<u>\$ 29,801,512</u>	<u>\$ 1,839,110</u>	6%	<u>\$ 28,657,522</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$1,839,110 and \$1,143,990 for the fiscal years ended June 30, 2021 and 2020, respectively.

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

- In 2021, the District's operating revenues increased 22%, or \$1,578,175, primarily from a \$939,259 increase in water consumption sales and a \$547,261 increase in service charges. These increases were a direct result of COVID-19 and dry weather.
- In 2020, the District's operating revenues increased 18%, or \$1,095,643, primarily from a \$1,004,295 increase in water consumption sales.
- In 2021, the District's operating expenses increased by \$908,111 primarily due to an increase in water purchases of \$298,923 and an increase in transmission and distribution expenses of \$328,438. Consumption and transmission increased substantially because of COVID-19 and dry weather since more people were working from home.
- In 2020, the District's operating expenses increased by \$717,564 primarily due to an increase in water purchases of \$421,790 and an increase in transmission and distribution expenses of \$202,381.

PURISSIMA HILLS WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Capital Asset Administration

At the end of fiscal year 2021 and 2020, the District's investment in capital assets amounted to \$31,163,968 and \$28,138,160 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions the District's transmission and distribution system.

	June 30, 2021	June 30, 2020	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2019
Land	\$ 180,099	\$ 180,099	\$ -	0%	\$ 180,099
Construction in Progress	5,946,083	1,929,396	4,016,687	208%	1,442,635
Supply Plant	264,336	264,336	-	0%	264,336
Pumping Plant	2,673,168	2,673,168	-	0%	2,579,267
Transmission and Distribution Mains	37,504,915	37,504,915	-	0%	36,963,421
General Plant and Equipment	2,527,919	2,523,548	4,371	0%	2,394,347
Capital Asset at Cost	49,096,520	45,075,462	4,021,058	9%	43,824,105
Less Accumulated Depreciation	<u>(17,932,552)</u>	<u>(16,937,302)</u>	<u>995,250</u>	6%	<u>(15,954,371)</u>
Capital Assets, Net	<u>\$ 31,163,968</u>	<u>\$ 28,138,160</u>	<u>\$ 3,025,808</u>	11%	<u>\$ 27,869,734</u>

Long-Term Debt

During fiscal year 2020, the District issued \$8,103,000 in 2020 Installment Bonds. As of June 30, 2021 and 2020, the outstanding principal balance was \$7,440,000 and \$7,910,000, respectively. The bond proceeds were used to improve and build infrastructure needed to service citizens and manage capacity increases.

Factors Bearing on the District's Future

The COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the District, COVID-19 may impact various parts of its 2022 operations and financial results, including, but not limited to, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

The District is also closely monitoring the potential impact of water shortages and droughts in California. In response, the District is working diligently to reduce water consumption as the current drought continues.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 26375 Fremont Road, Los Altos Hills, CA 94022.

BASIC FINANCIAL STATEMENTS

PURISSIMA HILLS WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 7,677,101	\$ 9,611,842
Accrued interest receivable	4,929	3,683
Accounts receivable - water sales and services, net	1,084,532	873,431
Accounts receivable - other	129,617	110,572
Inventory - water in storage	27,166	23,885
Inventory - materials and supplies	275,035	277,626
Prepaid expenses and deposits	57,243	97,610
Total Current Assets	9,255,623	10,998,649
Non-current Assets		
Capital assets, net (Note 3)	31,163,968	28,138,160
TOTAL ASSETS	40,419,591	39,136,809
Deferred Outflows of Resources:		
Pension related (Note 5)	250,167	309,628
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable and accrued expenses	672,653	946,716
Accrued salaries and wages	4,345	6,551
Unearned revenues	58,537	24,339
Customer deposits	30,705	32,507
Current portion of Installment Bonds	480,000	470,000
Total Current Liabilities	1,246,240	1,480,113
Long-Term Liabilities		
Installment Bonds	6,960,000	7,440,000
Compensated absences	50,295	12,594
Net pension liability (Note 5)	692,678	599,677
TOTAL LIABILITIES	8,949,213	9,532,384
Deferred Inflows of Resources:		
Pension related (Note 5)	79,923	112,541
<u>NET POSITION</u>		
Invested in capital assets	31,163,968	28,138,160
Unrestricted	476,654	1,663,352
TOTAL NET POSITION	<u>\$ 31,640,622</u>	<u>\$ 29,801,512</u>

The accompanying notes are an integral part of these financial statements.

PURISSIMA HILLS WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water consumption sales	\$ 7,367,882	\$ 6,428,623
Service charges	1,218,973	671,712
Other charges	135,836	44,181
Total Operating Revenues	<u>8,722,691</u>	<u>7,144,516</u>
OPERATING EXPENSES		
Source of supply	4,193,740	3,894,817
Pumping	389,931	344,160
Transmission and distribution	1,511,956	1,183,518
Water treatment	14,882	15,893
Customer accounts	240,257	136,504
General and administrative	903,688	783,770
Depreciation	995,250	982,931
Total Operating Expenses	<u>8,249,704</u>	<u>7,341,593</u>
Operating income (loss)	472,987	(197,077)
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	1,259,245	1,209,506
Rental income - cellular antennas	253,746	234,860
Investment income	20,192	71,712
Interest expense	(167,060)	(72,511)
Debt issuance costs	-	(102,500)
Total Non-Operating Revenues (Expenses)	<u>1,366,123</u>	<u>1,341,067</u>
CHANGE IN NET POSITION	1,839,110	1,143,990
NET POSITION, BEGINNING OF YEAR	<u>29,801,512</u>	<u>28,657,522</u>
NET POSITION, END OF YEAR	<u>\$ 31,640,622</u>	<u>\$ 29,801,512</u>

The accompanying notes are an integral part of these financial statements.

PURISSIMA HILLS WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Receipts from customers for water sales and services	\$ 8,528,748	\$ 6,980,350
Payments for employee wages and benefits	(1,137,244)	(1,141,792)
Payments to suppliers for water and power	(4,586,952)	(4,242,515)
Payments to suppliers for materials and services	(1,613,112)	(488,846)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,191,440</u>	<u>1,107,197</u>
Cash Flows From Non-Capital Financing Activities		
Rent received for cellular antennas	253,746	234,860
Property taxes received	1,259,245	1,209,506
Net Cash Flows Provided (Used) by Non-Capital Financing Activities	<u>1,512,991</u>	<u>1,444,366</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,021,058)	(1,251,357)
Sale of installment bonds	-	8,103,000
Principal payments on long-term debt	(470,000)	(193,000)
Interest payments on long-term debt	(167,060)	(72,511)
Cost of issuance for long-term debt	-	(102,500)
Net Cash Flows Provided (Used) by Capital & Related Activities	<u>(4,658,118)</u>	<u>6,483,632</u>
Cash Flows From Investing Activities		
Interest Income	18,946	70,390
Net Cash Flows Provided (Used) by Investing Activities	<u>18,946</u>	<u>70,390</u>
Net Increase (Decrease) in Cash	(1,934,741)	9,105,585
Beginning Cash and Equivalents	<u>9,611,842</u>	<u>506,257</u>
Ending Cash, Cash Equivalents and Restricted Cash	<u>\$ 7,677,101</u>	<u>\$ 9,611,842</u>

The accompanying notes are an integral part of these financial statements.

PURISSIMA HILLS WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities		
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 472,987	\$ (197,077)
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	995,250	982,931
(Increase) Decrease in:		
Accounts receivable	(230,146)	(129,322)
Inventory	(690)	21,084
Prepaid expenses and deposits	40,367	(60,639)
Deferred outflows	59,461	(50,750)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(274,063)	468,965
Accrued salaries and wages	(2,206)	1,924
Unearned revenues and customer deposits	32,396	(38,651)
Compensated absences	37,701	2,005
Net pension liability	93,001	82,052
Deferred inflows	(32,618)	24,675
	<u>\$ 1,191,440</u>	<u>\$ 1,107,197</u>
Net Cash Provided (used) by Operating Activities		

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Purissima Hills Water District (District) was formed in 1955 and provides service to two-thirds of the Town of Los Altos Hills, a rural community adjacent to the cities of Palo Alto and Los Altos, and unincorporated areas in Santa Clara County to the south. The District serves predominantly single-family homes on minimum one-acre lots. The District's largest customer is Foothill College. The District is governed by a five-member Board of Directors who each serves four year terms.

Purissima Hills Water District receives 100% of its water supply from San Francisco Public Utilities Commission (SFPUC) via two turnouts from the Hetch Hetchy pipeline along the Foothill Expressway on the northern edge of the District. The SFPUC water supply is gravity-fed through 18" transmission mains to two pump stations that pump to tanks distributed throughout the District. The distribution system consists of 4 pressure zones, 11 tanks, 5 pumping stations, 15 pumps, and 80 miles of pipe. All services within the District are pressurized or gravity fed from tanks in the respective pressure zones. The tanks have a total capacity of 10 million gallons.

B. BASIS OF ACCOUNTING

The District is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District include water service charges. Operating expenses of the District include employee costs, water purchases, maintenance, utilities, and other administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

C. CASH AND CASH EQUIVALENTS

The District considers cash on hand, cash in banks and the Local Agency Investment Fund to be cash and cash equivalents.

D. ACCOUNTS RECEIVABLE

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

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

E. MATERIALS AND SUPPLIES INVENTORY

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings 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.

F. UNEARNED REVENUE

Unearned revenue represents money collected in advance for customer water consumption sales.

G. COMPENSATED ABSENCES

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

H. RESTRICTED NET POSITION

Restricted net position represents storage facility charges collected and legally restricted for construction of transportation and storage facilities.

I. CAPITAL ASSETS

Capital assets are recorded at cost, or if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Transmission and distribution mains	15 - 50 years
Buildings	15 - 50 years
Transportation and other equipment	5 - 10 years
Computer and office equipment	3 years

District policy is to capitalize all assets, which cost \$5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

J. REVENUES/CAPACITY CHARGES

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year.

California state law requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund. No capacity charges were collected by the District for the June 30, 2021 and 2020 fiscal year.

K. PROPERTY TAXES

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting. The County Assessor is responsible for assessment of all taxable real property within Santa Clara County. Reassessment is on a three-year schedule established by the Assessor. The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and November 1st. The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. The levy becomes an enforceable lien against the property as of March 1st following the levy year.

L. INCOME TAXES

The District is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

M. PENSIONS

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

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

N. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

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

O. USE OF ESTIMATES

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

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Cash on hand	\$ 1,033	\$ 380
Cash in bank	1,567,747	472,051
Local Agency Investment Fund	<u>6,108,321</u>	<u>9,139,411</u>
Total Cash and Cash Equivalents	<u>\$ 7,677,101</u>	<u>\$ 9,611,842</u>

The carrying amount of the District's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the District's investment in this pool, which approximates cost, is reported in the accompanying financial statements 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. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

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. The monies held in the LAIF investment pool are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 is as follows:

	<u>Balance July 1, 2020</u>	<u>Additions and transfers</u>	<u>Deletions and transfers</u>	<u>Balance June 30, 2021</u>
Capital assets not subject to depreciation				
Land	\$ 180,099	\$ -	\$ -	\$ 180,099
Construction in progress	1,929,396	4,016,687	-	5,946,083
Total capital assets not subject to depreciation	<u>2,109,495</u>	<u>4,016,687</u>	<u>-</u>	<u>6,126,182</u>
Capital assets being depreciated				
Supply plant	264,336	-	-	264,336
Pumping plant	2,673,168	-	-	2,673,168
Transmission and distribution mains	37,504,915	-	-	37,504,915
General plant and equipment	2,523,548	4,371	-	2,527,919
Total capital assets being depreciated	<u>42,965,967</u>	<u>4,371</u>	<u>-</u>	<u>42,970,338</u>
Less accumulated depreciation for:				
Supply plant	(264,336)	-	-	(264,336)
Pumping plant	(1,544,037)	(125,058)	-	(1,669,095)
Transmission and distribution mains	(13,701,121)	(764,095)	-	(14,465,216)
General plant and equipment	(1,427,808)	(106,097)	-	(1,533,905)
Total accumulated depreciation	<u>(16,937,302)</u>	<u>(995,250)</u>	<u>-</u>	<u>(17,932,552)</u>
Total capital assets, net of depreciation	<u>\$ 28,138,160</u>	<u>\$ 3,025,808</u>	<u>\$ -</u>	<u>\$ 31,163,968</u>

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

3. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2020 is as follows:

	<u>Balance July 1, 2019</u>	<u>Additions and transfers</u>	<u>Deletions and transfers</u>	<u>Balance June 30, 2020</u>
Capital assets not subject to depreciation				
Land	\$ 180,099	\$ -	\$ -	\$ 180,099
Construction in progress	1,442,635	1,246,615	(759,854)	1,929,396
Total capital assets not subject to depreciation	<u>1,622,734</u>	<u>1,246,615</u>	<u>(759,854)</u>	<u>2,109,495</u>
Capital assets being depreciated				
Supply plant	264,336	-	-	264,336
Pumping plant	2,579,267	93,901	-	2,673,168
Transmission and distribution mains	36,963,421	541,494	-	37,504,915
General plant and equipment	2,394,347	129,201	-	2,523,548
Total capital assets being depreciated	<u>42,201,371</u>	<u>764,596</u>	<u>-</u>	<u>42,965,967</u>
Less accumulated depreciation for:				
Supply plant	(264,336)	-	-	(264,336)
Pumping plant	(1,437,760)	(106,277)	-	(1,544,037)
Transmission and distribution mains	(12,908,614)	(792,507)	-	(13,701,121)
General plant and equipment	(1,343,661)	(84,147)	-	(1,427,808)
Total accumulated depreciation	<u>(15,954,371)</u>	<u>(982,931)</u>	<u>-</u>	<u>(16,937,302)</u>
Total capital assets, net of depreciation	<u>\$ 27,869,734</u>	<u>\$ 1,028,280</u>	<u>\$ (759,854)</u>	<u>\$ 28,138,160</u>

Depreciation for the year's ended June 30, 2021 and 2020 was \$995,250 and \$982,931, respectively.

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

4. LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities during the year ended June 30, 2021:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
2020 Installment Bonds	\$ 7,910,000	\$ -	\$ 470,000	\$ 7,440,000	\$ 480,000
Net Pension Liability	599,677	93,001	-	692,678	-
Compensated Absences	12,594	108,694	70,993	50,295	-
Total long-term debt	<u>\$ 8,522,271</u>	<u>\$ 201,695</u>	<u>\$ 540,993</u>	<u>\$ 8,182,973</u>	<u>\$ 480,000</u>

The following is a summary of changes in the District's long-term liabilities during the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
2020 Installment Bonds	\$ -	\$ 8,103,000	\$ 193,000	\$ 7,910,000	\$ 470,000
Net Pension Liability	517,625	82,052	-	599,677	-
Compensated Absences	10,589	2,005	-	12,594	-
Total long-term debt	<u>\$ 528,214</u>	<u>\$ 8,187,057</u>	<u>\$ 193,000</u>	<u>\$ 8,522,271</u>	<u>\$ 470,000</u>

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

4. LONG-TERM LIABILITIES (Continued)

2020 Installment Bonds

The District issued debt in the form of an installment sale agreement to issue \$8,103,000 of bonds in agreement with Zions Bank effective January 1, 2020 and ending December 30, 2034. Principal and interest payments vary and are due quarterly beginning March 30, 2020 with an interest rate of 2.16%. As of June 30, 2021, the outstanding principal balance was \$7,440,000 and \$7,910,000 as of June 30, 2020. Future minimum lease payments are as follows:

Fiscal year Ended			
June 30:	Principal	Interest	Total
2022	\$ 480,000	\$ 156,832	\$ 636,832
2023	491,000	146,378	637,378
2024	501,000	135,691	636,691
2025	512,000	124,778	636,778
2026	523,000	113,632	636,632
2027 - 2031	2,792,000	392,245	3,184,245
2032 - 2036	2,141,000	87,739	2,228,739
	<u>\$ 7,440,000</u>	<u>\$ 1,157,296</u>	<u>\$ 8,597,296</u>

5. EMPLOYEE RETIREMENT PLAN

A. Plan Description

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

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 the plan are applied as specified by the Public Employees' Retirement Law.

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

A. Plan Description (Continued)

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

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.000%	7.250%
Required employer contribution rates	9.442%	7.874%

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 the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Purissima Hills Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2021 and 2020, the contributions recognized as part of pension expense for the Plan were \$114,764 and \$159,428, respectively.

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

As of June 30, 2021 and 2020, the Purissima Hills Water District reported net pension liabilities for its proportionate share of the net pension liability of \$692,678 and \$599,677, respectively.

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

Proportion - June 30, 2020	0.01497%
Proportion - June 30, 2021	0.01642%
Change - Increase (Decrease)	<u>0.00145%</u>

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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

For the year ended June 30, 2021 and 2020, the District recognized pension expense of \$189,427 and \$192,793, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>\$</u>	<u>\$</u>
Pension contributions subsequent to measurement date	\$ 114,764	\$ -
Difference between expected and actual experience	35,696	-
Difference between employer's contributions and proportionate share of contributions	-	(74,983)
Change in employer's proportion	79,130	-
Changes in assumptions	-	(4,940)
Differences between projected and actual investment earnings	20,577	-
Total	<u>\$ 250,167</u>	<u>\$ (79,923)</u>

\$159,428 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30	Total Deferred Outflow/(Inflow) of Resources
<u> </u>	<u> </u>
2022	\$ 14,015
2023	16,192
2024	15,404
2025	9,869
2026	-
Thereafter	-
	<u>\$ 55,480</u>

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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

	<u>June 30, 2020</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 159,428	\$ -
Difference between expected and actual experience	41,650	(3,227)
Difference between employer's contributions and proportionate share of contributions	-	(88,693)
Change in employer's proportion	79,954	-
Changes in assumptions	28,596	(10,137)
Differences between projected and actual investment earnings	-	(10,484)
Total	<u>\$ 309,628</u>	<u>\$ (112,541)</u>

\$87,794 reported as deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the current year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30	Total Deferred Outflow/(Inflow) of Resources
2021	\$ 40,471
2022	(3,692)
2023	(1,239)
2024	2,119
2025	-
Thereafter	-
	<u>\$ 37,659</u>

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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

Actuarial Assumptions – The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Mortality	Derived using CalERS' Membership Data for all Funds
Post-retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2019 valuation were based on the CalPERS Experience Study for the period from 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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

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

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

Asset Class	Current Strategic Allocation (a)	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period

(c) An expected inflation of 2.92% used for this period

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

– The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability	\$ 1,237,792	\$ 692,678	\$ 242,267

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

PURISSIMA HILLS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

C. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

6. JOINTLY GOVERNED ORGANIZATIONS

The District is a member of two jointly governed organizations. The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA) which provides workers compensation, liability, and property insurance. The District is also a member of Bay Area Water Supply & Conservation Agency (BAWSCA) who represent member negotiations with the San Francisco Public Utilities Commission (SFPUC).

ACWA JPIA and BAWSCA are governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from ACWA JPIA and BAWSCA. The latest condensed information for ACWA JPIA and BAWSCA for the years ended September 30th and June 30th, respectively, are as follows:

	ACWA JPIA September 30, 2020	ACWA JPIA September 30, 2019
Total Assets	\$ 237,525,073	\$ 212,099,851
Total Deferred Outflows	1,054,750	553,790
Total Liabilities	113,075,164	112,046,920
Total Deferred Inflows	1,817,452	1,672,219
Total Net Position	<u>\$ 123,687,207</u>	<u>\$ 98,934,502</u>
Total Liabilities and Net Position	<u>\$ 238,579,823</u>	<u>\$ 212,653,641</u>
Total Revenues	\$ 197,639,443	\$ 181,825,144
Total Expenses	172,886,738	169,356,246
Change in Net Position	<u>\$ 24,752,705</u>	<u>\$ 12,468,898</u>

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

7. LEASE REVENUES

The District contracted with five different companies to lease land for communication towers on those properties. The agreements are for multiple years and require monthly payments based on the contracted amounts. Each lease is typically for 5 years and renewable for 5 successive 5 year terms. Each lease provides for an annual rent increase of 3%. Lease revenues for the years ended June 30, 2021 and 2020 totaled \$253,746 and \$234,860, respectively. A schedule of future lease revenues as of June 30, 2021, based on the current agreements is as follows:

Fiscal Year Ending June 30:	Amount
2022	\$ 112,724
2023	116,105
2024	<u>66,730</u>
Total	<u>\$ 295,559</u>

8. DEFERRED COMPENSATION

The District has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation.

The District believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District has formally established a trust in accordance with Internal Revenue Code Section 457(g) to provide protection from the claims of the employer's general creditors. Accordingly deferred compensation assets placed in the trust are not reflected in these financial statements.

PURISSIMA HILLS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

9. COMMITMENTS

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.

10. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2021 financial statements for subsequent events through April 13, 2022, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

PURISSIMA HILLS WATER DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

JUNE 30, 2021

	Fiscal Year ⁽¹⁾						
	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Proportion of the net pension liability	0.00503%	0.00343%	0.00513%	0.00555%	0.00537%	0.00585%	0.00637%
Proportionate share of the net pension liability	\$ 313,189	\$ 235,576	\$ 443,593	\$ 550,597	\$ 517,625	\$ 599,677	\$ 692,678
Covered payroll ⁽²⁾	\$ 547,310	\$ 573,789	\$ 599,250	\$ 616,856	\$ 624,319	\$ 657,279	\$ 764,271
Proportionate share of the net pension liability as percentage of covered payroll	57.22%	41.06%	74.02%	89.26%	82.91%	91.24%	90.63%
Plans fiduciary net position as a percentage of the total pension liability	81.15%	79.89%	75.87%	75.39%	77.69%	75.26%	75.10%
Proportionate share of aggregate employer contributions ⁽³⁾	\$ 44,117	\$ 66,959	\$ 71,019	\$ 73,219	\$ 87,794	\$ 87,794	\$ 114,764

⁽¹⁾ Historical information is required only for measurement periods for which GASB 68 is applicable.

⁽²⁾ Covered payroll represented above is based on pensionable earnings provided by the employer.

⁽³⁾ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

PURISSIMA HILLS WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2021

	Fiscal Year ⁽¹⁾						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Actuarially Determined Contribution (2)	\$ 44,117	\$ 66,959	\$ 71,019	\$ 73,219	\$ 87,794	\$ 101,498	\$ 114,764
Contributions in relation to the actuarially determined contributions	(44,117)	(66,959)	(71,019)	(73,219)	(87,794)	(101,498)	(114,764)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll (3,4)	\$ 547,310	\$ 573,789	\$ 599,250	\$ 616,856	\$ 624,319	657,279	764,271
Contributions as a percentage of covered payroll (3)	8.06%	11.67%	11.85%	11.87%	14.06%	15.44%	15.02%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered

(3) Covered payroll represented above is based on pensionable earnings provided by the employer.

(4) Payroll from prior year was assumed to increase by the 3.00 percent payroll growth assumption.

OTHER INDEPENDENT AUDITOR'S REPORT



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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*

Independent Auditor's Report

Board of Directors
Purissima Hills Water District
Los Altos Hills, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Purissima Hills Water District (the "District"), as of and for the years ended June 30, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 13, 2022.

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 our 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 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.

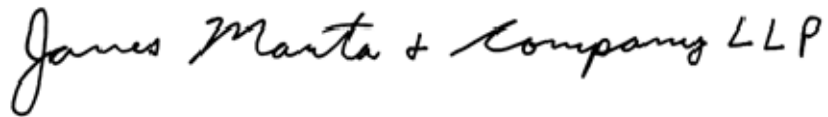
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 13, 2022

PURISSIMA HILLS WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2021

<u>Findings and Recommendation</u>	<u>Current Status</u>	<u>Explanation If Not Implemented</u>
<p>2020-01 Compensated Absences – Significant Deficiency</p> <p>The District did not maintain a schedule to track the current balance of employees’ vacation and sick time accruals.</p> <p>We recommend that a formal schedule be utilized to track usage, accruals and the current balance of employee vacation and sick time to ensure that compliance with the District’s policy is maintained and balances do not go below zero.</p>	Partially Implemented	The condition existed during the year. However, the District engaged an outside CPA to perform the compensated absence calculation and we noted a continuous improvement after the CPA was engaged.
<p>2020-02 Account Reconciliation – Significant Deficiency</p> <p>The District did not reconcile all general ledger accounts to supporting schedules as of June 30, 2020. Although the differences were not material, the District should reconcile all general ledger accounts to supporting schedules on a monthly basis. Financial statement accounts that did not reconcile to supporting backup include the following:</p> <ul style="list-style-type: none">- Inventory – Materials and Supplies- Inventory - Water- Unbilled receivables- Compensated absences- Customer deposits <p>As part of the month-end close process, all general ledger accounts should be reconciled to supporting schedules.</p>	Partially Implemented	The District engaged an outside CPA to perform a periodic accounts reconciliation for majority of the accounts except for inventory. The inventory adjustment was made after the final trial balance was provided to the auditors. The adjusted amounts were immaterial.

PURISSIMA HILLS WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2021

2020-03 Customer Deposit Liability – Significant Deficiency

Fully Implemented

The District did maintain an updated schedule of all customer deposits that have been received along with the status/reason for the deposit. There are currently three deposits maintained by the District for \$32,507 that is not related to an active project.

The District maintained a customer deposit schedule and reviewed periodically for adjustment to the general ledger in the 2021 fiscal year.

Maintain detailed records of the terms and conditions for each deposit received. Ensure that deposits are collected in a systematic method in line with the Districts internal policies. Deposits should be returned to the customer at the completion or cancellation of each project, as applicable.

2018-02 Materials and Supplies Inventory – Significant Deficiency

Fully Implemented

The District did not have a complete detail listing and valuation of its materials and supplies inventory as of June 30, 2018. Keeping current, accurate records of inventory provides an up-to-date listing of on-hand inventory, as well as tighter control over assets. In addition, a physical inventory was not conducted at year end to determine the accuracy of the inventory amount recorded in the accounting system. An overall accurate inventory balance is composed of two major components. The first component is proper quantities of goods in inventory and the second is accurate inventory costing.

A full review of inventory valuation was performed by the district in the 2021 fiscal year. The District performed a count immediately after fiscal year 2021 close.

The District should implement an inventory system that tracks all pertinent information so that purchases, sales, returns and damaged items would each be accounted for and recorded accurately. Physical counts of inventory should be done at least annually. The results should be reviewed and reconciled to the amounts recorded in the accounting system. Management should formally document the procedures for performing its physical inventory counts. These instructions should include specific tasks to be done by District personnel, specific tasks to be done by the Accounting Department, completion of inventory tags and completion of the inventory control sheets. The written instructions should also include reconciliation and recount procedures.