

DESERT WATER



*FINANCIAL REPORT
JUNE 30, 2023 and June 30, 2022*

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Independent Auditor's Report

**To the Board of Directors
Desert Water Agency**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Desert Water Agency (the Agency), which comprise the statements of net position as of June 30, 2023 and 2022, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2023 and 2022, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibilities for the Financial Statements

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter

We draw attention to Notes 2 and 6 which describes that the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*, which became effective during the year ended June 30, 2022. Our opinion is not modified with respect to this matter.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 13, and the required supplementary information on pages 52 through 54 be presented to supplement the basic financial statements. Such information is the responsibility of management, and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The schedules of revenues and expenses by fund as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the organizational information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2023, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Vaughan & Company LLP

**Glendale, California
December 14, 2023**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

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Management's discussion and analysis of Desert Water Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the years ended June 30, 2023 and June 30, 2022. Please read it in conjunction with the Agency's basic financial statements which begin on page 14.

FINANCIAL HIGHLIGHTS

- In fiscal year 2023, the Agency's net position increased \$41.4 million or 10.2 percent as a result of the year's operations. In fiscal year 2022, the Agency's net position increased \$31.7 million or 8.5 percent.
- In fiscal year 2023, the Agency's total assets increased \$39.0 million mainly due to a \$36.5 million increase in cash and investments and a \$2.5 million increase in capital assets. In fiscal year 2022, total assets increased \$27.7 million mainly due to a \$21.2 million increase in cash and investments and a \$3.0 million increase in capital assets.
- Deferred outflows and inflows of resources were recorded for Pension, Other post-employment benefits (OPEB) and leases. In fiscal year 2023, deferred outflows increased \$2.2 million while deferred inflows decreased \$6.3 million. The decrease in deferred inflows is mainly due to the changes in market conditions.
- In fiscal year 2023, current year operating revenues decreased \$1.6 million or 3.4 percent while operating expenses increased \$6.6 million or 14.7 percent, which produced a decrease in net operating income of \$8.2 million. In fiscal year 2022, current year operating revenues increased \$2.1 million or 4.7 percent while operating expenses increased \$0.5 million or 1.1 percent, which resulted in an increase in net operating income of \$1.6 million.
- In fiscal year 2023, total operating expenses increased \$6.6 million or 14.7 percent. The increase in operating expenses is mainly due to a \$0.9 million increase in source of supply expense, a \$0.6 million increase in pumping, a \$0.6 million increase in transmission and distribution expense, and a \$4.1 million increase in administration and general expense. In fiscal year 2022, total operating expenses increased \$0.5 million or 1.1 percent. The increase in operating expenses is mainly due to a \$1.4 million increase in source of supply expense, a \$0.6 million increase in pumping, a \$0.3 million increase in reclamation expense, offset by a \$2.1 million decrease in administration and general expense.
- In fiscal year 2023, capital contributions decreased \$0.3 million mainly due to a decrease in new and/or existing developer projects completed in the Agency's service area. In fiscal year 2022, capital contributions decreased \$0.2 million mainly due to a decrease in new and/or existing developer projects completed in the Agency's service area during the fiscal year.
- Total operating and non-operating revenues for 2023 and 2022 were a combined \$95.6 million and \$87.2 million, respectively. Total expenses in 2023 and 2022 were \$54.6 million and \$56.2 million, respectively.

- In fiscal year 2023, non-operating revenues (expenses), net increased \$18.2 million due to an \$8 million decrease in unrealized loss of investments due to market conditions and an \$8 million increase in property tax receipts. In fiscal year 2022, nonoperating revenues (expenses), net decreased \$9.3 million due to an increase in unrealized loss of investments due to market conditions.
- In fiscal year 2023, other current assets increased \$0.8 million due to an increase in interest receivables. In fiscal year 2022, other current assets increased \$0.5 million due to an increase in customer work order deposits.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses, and changes in net position (on pages 15 through 17) provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances.

REPORTING THE AGENCY AS A WHOLE

Our analysis of the Agency as a whole begins on page 5. One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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 cash is received or paid.

These two statements report the Agency's net position and changes in them. You can think of the Agency's net position - the difference between assets and liabilities - as one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the Agency's property tax base and the condition of the Agency's water facilities, to assess the overall health of the Agency.

The Agency reports in the statement of net position and the statement of revenues, expenses, and changes in net position one type of activity for the water service it provides. All Agency activities are reported in these statements.

THE AGENCY AS A WHOLE

In fiscal year 2023, the Agency's net position increased to \$446.5 million from \$405.1 million. In fiscal year 2022, the Agency's net position increased to \$405.1 million from \$373.4 million. Our analysis below focuses on the net position (Table 1) and the changes in net position (Table 2) of the Agency's activities.

**Table 1
Condensed Statement of Net Position
(in Millions)**

			Change				Change	
	2023	2022	\$	%	2021	\$	%	
Capital assets, net	\$ 214.9	\$ 212.4	\$ 2.5	1.2%	\$ 209.4	\$ 3.0	1.4%	
Current and other assets	292.1	255.6	36.5	14.3%	230.9	24.7	10.7%	
Total assets	507.0	468.0	39.0	8.3%	440.3	27.7	6.3%	
Deferred outflows of resources	11.6	9.4	2.2	23.4%	11.4	(2.0)	(17.5%)	
Total assets and deferred outflows of resources	\$ 518.6	\$ 477.4	\$ 41.2	8.6%	\$ 451.7	\$ 25.7	5.7%	
Long-term liabilities	51.8	47.7	4.1	8.6%	67.5	(19.8)	(29.3%)	
Current liabilities	7.6	5.6	2.0	35.7%	6.7	(1.1)	(16.4%)	
Total liabilities	59.4	53.3	6.1	11.4%	74.2	(20.9)	(28.2%)	
Deferred inflows of resources	12.7	19.0	(6.3)	(33.2%)	4.1	14.9	363.4%	
Net position								
Net investment in capital assets	214.7	212.2	2.5	1.2%	191.6	20.6	10.8%	
Restricted	128.6	94.5	34.1	36.1%	72.1	22.4	31.1%	
Unrestricted	103.2	98.4	4.8	4.9%	109.7	(11.3)	(10.3%)	
Total net position	446.5	405.1	41.4	10.2%	373.4	31.7	8.5%	
Total liabilities, deferred inflows of resources, and net position	\$ 518.6	\$ 477.4	\$ 41.2	8.6%	\$ 451.7	\$ 25.7	5.7%	

June 30, 2023 vs. June 30, 2022

In fiscal year 2023, the net position increased by \$41.4 million. The unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased by \$4.8 million.

June 30, 2022 vs. June 30, 2021

In fiscal year 2022, the net position increased by \$31.7 million. The unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased by \$11.3 million.

**Desert Water Agency
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022**

**Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position
(in Millions)**

	2023		2022		Change		2021		Change	
	\$		\$		\$	%	\$		\$	%
Operating revenues	\$ 45.5	\$ 47.1	\$ (1.6)	(3.4%)	\$ 45.0	\$ 2.1	4.7%			
Operating expenses	51.4	44.8	6.6	14.7%	44.3	0.5	1.1%			
Operating income (loss)	(5.9)	2.3	(8.2)	(356.5%)	0.7	1.6	228.6%			
Nonoperating revenues	50.1	40.1	10.0	24.9%	36.8	3.3	9.0%			
Nonoperating expenses	(3.2)	(11.4)	(8.2)	(71.9%)	(0.8)	10.6	(1325.0%)			
Capital contributions	0.4	0.7	(0.3)	(42.9%)	0.9	(0.2)	(22.2%)			
Change in net position	41.4	31.7	9.7	30.6%	37.6	(5.9)	(15.7%)			
Net position, beginning of year	405.1	373.4	31.7	8.5%	335.8	37.6	11.2%			
Net position, end of year	\$ 446.5	\$ 405.1	\$ 41.4	10.2%	\$ 373.4	\$ 31.7	8.5%			

Fiscal Year 2023 vs. Fiscal Year 2022

In fiscal year 2023, the Agency's operating revenues decreased 3.5 percent and operating expenses increased 14.8 percent. The factors driving these results include:

- Water sales revenue decreased \$0.6 million or 1.5 percent due to a decrease in water consumption due to conservation efforts.
- The source of supply expenses increased \$0.9 million primarily due to an increase in variable costs for the State Water Project due to increased water deliveries as compared to the prior year and an increase in Operations, Maintenance and Replacement costs for the State Water Project.
- Pumping expenses increased \$0.6 million primarily due to increased power costs.
- General and administrative expenses increased \$4.1 million mainly due to increased pension benefit costs and an increase in conservation efforts through the turf rebate program.
- Nonoperating revenues increased 24.7 percent primarily due to an increase in property tax and investment income revenue.
- Nonoperating expenses decreased \$8.2 million percent due to a reduction of the unrealized loss on investments.

- Capital contributions decreased \$0.3 million because of a decrease in new and/or existing developer projects completed in the Agency's service area.
- The Agency had 23,486 active water services at June 30, 2023. This represents a net increase of 45 active meters during the year.

Fiscal Year 2022 vs. Fiscal Year 2021

In fiscal year 2022, the Agency's operating revenues increased 4.7 percent and operating expenses increased 1.2 percent. The factors driving these results include:

- Water sales revenue increased \$1.6 million or 3.9 percent due to an increase in the water rate and decrease in water consumption due to conservation efforts.
- The source of supply expenses increased \$1.4 million mainly due to an increase in variable costs for the State Water Project as a result of increased water deliveries as compared to the prior year and an increase in Operations, Maintenance and Replacement costs for the State Water Project.
- Pumping expenses increased \$0.6 million mainly due to increased power costs.
- General and administrative expenses decreased \$2.1 million mainly due to decreased pension and other post-employment benefit costs.
- Nonoperating revenues increased 9.0% primarily due to an increase in property taxes and investment income.
- Nonoperating expenses increased \$10.6 million due to the unrealized loss on investments.
- Capital contributions decreased \$0.2 million as a result of a decrease in new and/or existing developer projects completed in the Agency's service area.
- The Agency had 23,441 active water services at June 30, 2022. This represents a net increase of 271 active meters during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2023 and 2022, the Agency had \$486.6 million and \$476.1 million, respectively (or \$214.9 million and \$212.4 million, net of accumulated depreciation) invested in a broad range of capital assets and construction in progress, including land, water transportation facilities, water storage facilities, water treatment facilities, reclamation facilities, water rights, water buildings, and equipment (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$2.5 million or 1.2 percent over last year.

**Table 3
Capital Assets
(in Millions)**

	June 30,		
	2023	2022	2021
State Water Project	\$ 137.8	\$ 132.4	\$ 126.8
Mains	111.1	109.3	108.9
Wells, intakes, pumps	25.7	25.7	25.8
Water reclamation	29.6	29.6	29.6
Water transportation facilities	25.6	25.6	25.6
Wastewater transportation facilities	23.3	23.1	23.0
Hydro- electric plants	5.1	5.1	5.1
Water treatment	3.1	3.1	3.1
Services	24.1	22.7	21.6
Meters	8.7	8.0	6.9
Fire service and hydrants	17.8	17.5	17.2
Reservoirs	17.6	17.6	17.7
Structures and improvements	21.9	21.7	21.7
Building	4.2	4.1	4.1
Equipment	12.9	12.6	12.5
Land	12.1	12.1	12.1
Construction in progress	6.0	5.9	3.9
Accumulated depreciation	<u>(271.7)</u>	<u>(263.7)</u>	<u>(256.2)</u>
Total capital assets, net	<u>\$ 214.9</u>	<u>\$ 212.4</u>	<u>\$ 209.4</u>

Fiscal year 2023 major capital assets additions included:

- \$5.4 million increase in State Water Project
- \$1.8 million increase in mains
- \$1.4 million increase in services
- \$0.7 million increase in meters
- \$0.3 million increase in fire service and hydrants
- \$0.3 million increase in equipment

Fiscal year 2022 major capital assets additions included:

- \$5.6 million increase in State Water Project
- 0.4 million increase in mains
- \$1.1 million increase in services
- \$1.1 million increase in meters
- \$0.3 million increase in fire services and hydrants
- \$2.0 million increase in construction in progress

Additional information regarding capital assets is provided in Note 5 of the Notes to the Financial Statements.

DEBT

Long-term debt consists of Water Revenue Advanced Refunding Bonds ("WRARB") debt issue at June 30, 2023 and 2022.

Water Revenue Refunding Bonds, Series 2016

**Table 4
Water Revenue Advanced Refunding Bonds**

	2023	2022
Total Water Revenue Advanced Refunding Bonds issued June 29, 2016	\$ 19,720,000	\$ 19,720,000
Principal debt repayment in prior years	(4,245,000)	(3,500,000)
Principal debt repayment in current year	(780,000)	(745,000)
Water Revenue Advanced Refunding Bonds outstanding as of June 30, 2023	\$ 14,695,000	\$ 15,475,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Agency's taxable assessed value (TAV) for 2022/2023 increased by \$2.1 billion (10.4 percent) over the 2021/2022 taxable assessed value. This growth rate was up from the TAV increase of 8.7 percent in 2021/2022. Over the past ten years, taxable assessed valuations have increased 6.7 percent per year on average.

The Agency continues an aggressive capital improvement and planned maintenance project program, according to the Agency's General plan, in order to address the Agency's aging infrastructure.

Future, required conservation measures may have a negative impact on water revenues. In order to mitigate this risk the Agency has adopted a Revenue Stabilization Rate and a Drought Rate. If the Agency experiences a decrease in revenue due to required conservation or other events, the Board may elect to impose the one of these rates in order to increase water revenues to meet operational needs. This, in conjunction with reserves, provides a solid financial position for the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office at: Desert Water Agency, 1200 Gene Autry Trail South, Palm Springs, California.

BASIC FINANCIAL STATEMENTS

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Desert Water Agency
Statements of Net Position
June 30, 2023 and 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2023	2022
Current assets		
Cash and cash equivalents	\$ 26,785,545	\$ 26,868,934
Investments	123,882,528	119,385,068
Accounts receivable		
Utility	2,131,991	3,140,376
Property taxes	1,277,419	937,258
Other governmental agencies	290,541	61,254
Other	154,606	153,690
Inventories	2,175,816	1,763,653
Lease receivable	151,810	140,108
Other current assets	2,400,063	1,639,960
Total current assets	159,250,319	154,090,301
Noncurrent assets		
Restricted cash and cash equivalents	14,332,270	28,943,556
Restricted investments	116,485,462	70,270,591
Long-term receivables	1,674	162,394
Lease receivable	2,010,360	2,207,098
Depreciable capital assets, net	196,875,016	194,439,744
Nondepreciable capital assets	18,044,538	17,941,166
Total noncurrent assets	347,749,320	313,964,549
Total assets	506,999,639	468,054,850
Deferred outflows of resources		
Pension related	8,608,114	5,033,827
Other post employment benefits (OPEB) related	2,049,572	3,315,939
Deferred loss on refunding	941,806	1,014,252
Total deferred outflows of resources	11,599,492	9,364,018
Total assets and deferred outflows of resources	\$ 518,599,131	\$ 477,418,868

(Continued)

See notes to financial statements.

Desert Water Agency
Statements of Net Position (Continued)
June 30, 2023 and 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2023	2022
Current liabilities		
Accounts payable	\$ 4,173,146	\$ 2,257,112
Payable to other governmental agencies	85,526	86,214
Current portion of long-term debt	800,000	780,000
Customer deposits	2,250,024	2,345,401
Other current liabilities	339,877	110,267
Total current liabilities	7,648,573	5,578,994
Long-term liabilities		
OPEB liability	19,011,824	23,161,439
Net pension liability	15,925,749	6,979,956
Other employee benefits payable	1,594,896	1,452,520
Long-term debt, net of current portion	15,210,879	16,112,101
Total long-term liabilities	51,743,348	47,706,016
Total liabilities	59,391,921	53,285,010
Deferred inflows of resources		
Pension related	1,593,808	7,379,988
OPEB related	8,981,225	9,235,077
Lease related	2,128,809	2,351,252
Total deferred inflows of resources	12,703,842	18,966,317
Net position		
Net investment in capital assets	214,720,119	212,228,315
Restricted	128,567,708	94,523,346
Unrestricted	103,215,541	98,415,880
Total net position	446,503,368	405,167,541
Total liabilities, deferred inflows of resources, and net position	\$ 518,599,131	\$ 477,418,868

See notes to financial statements.

Desert Water Agency
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2023 and 2022

	2023	2022
Operating revenues		
Water sales	\$ 41,888,879	\$ 42,519,424
Water services	1,966,849	2,173,478
Government grants	241,703	781,367
Hydroplant revenues	93,727	107,992
Fines and fees	408,300	340,050
Reclamation sales/ services	895,990	1,212,480
Total operating revenues	45,495,448	47,134,791
Operating expenses		
Source of supply	14,348,559	13,455,362
Pumping	4,962,228	4,382,413
Water treatment	1,109,190	869,423
Transmission and distribution	3,540,725	2,939,952
Customer accounts	1,148,274	994,269
Water reclamation	1,152,872	1,203,590
Regulatory	378,864	361,092
Administration and general	15,484,956	11,396,125
Other operating expenses	990,583	1,089,162
Depreciation and amortization	8,311,756	8,103,168
Total operating expenses	51,428,007	44,794,556
Operating income (loss)	(5,932,559)	2,340,235
Nonoperating revenues (expenses), net		
Property taxes	45,286,416	37,266,049
Unrealized losses on investments	(2,553,122)	(10,608,111)
Net investment return	4,118,702	1,955,808
Interest expense	(633,347)	(661,450)
Losses on retirement of capital assets	(20,466)	(167,751)
Other	658,499	927,822
Total nonoperating revenues (expenses), net	46,856,682	28,712,367
Increase in net position, before capital contributions	40,924,123	31,052,602

(Continued)

See notes to financial statements.

Desert Water Agency
Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years ended June 30, 2023 and 2022

	2023	2022
Capital contributions		
Contributions of property	\$ 408,283	\$ 710,172
Capacity charges	3,421	1,250
Total capital contributions	411,704	711,422
Increase in net position	41,335,827	31,764,024
Net position		
Beginning of year	405,167,541	373,403,517
Net position, end of year	\$ 446,503,368	\$ 405,167,541

See notes to financial statements.

Desert Water Agency
Statements of Cash Flows
Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Cash received from customers	\$ 45,578,870	\$ 46,802,951
Cash paid to suppliers and employees	<u>(44,792,856)</u>	<u>(43,132,816)</u>
Net cash provided by operating activities	<u>786,014</u>	<u>3,670,135</u>
Cash flows from noncapital financing activities		
Property taxes	<u>44,946,255</u>	<u>37,252,392</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(10,870,866)	(11,245,790)
Principal paid on long-term debt	(760,000)	(745,000)
Interest paid on long-term debt	(682,123)	(690,224)
Capacity charges	3,421	1,250
Other revenue	832,011	1,415,551
Proceeds from lease	<u>197,364</u>	<u>226,491</u>
Net cash used in capital and related financing activities	<u>(11,280,193)</u>	<u>(11,037,722)</u>
Cash flows from investing activities		
Purchases of investments	(84,526,409)	(58,542,213)
Proceeds from maturing investments and return of principal	31,260,956	13,962,130
Interest on investments	<u>4,118,702</u>	<u>1,955,808</u>
Net cash used in investing activities	<u>(49,146,751)</u>	<u>(42,624,275)</u>
Net decrease in cash and cash equivalents	(14,694,675)	(12,739,470)
Cash and cash equivalents, beginning of year	<u>55,812,490</u>	<u>68,551,960</u>
Cash and cash equivalents, end of year	<u>\$ 41,117,815</u>	<u>\$ 55,812,490</u>

(Continued)

See notes to financial statements.

Desert Water Agency
Statement of Cash Flows (Continued)
Years ended June 30, 2023 and 2022

	2023	2022
Reconciliation of cash and cash equivalents to statements of net position		
Unrestricted cash and cash equivalents	\$ 26,785,545	\$ 26,868,934
Restricted cash and cash equivalents	14,332,270	28,943,556
Total cash and cash equivalents	\$ 41,117,815	\$ 55,812,490
Reconciliation of operating revenue (loss) to net cash provided by operating activities		
Operating income (loss)	(5,932,559)	2,340,235
Adjustments to reconcile operating revenue (loss) to net cash provided by operating activities		
Depreciation and amortization	8,311,756	8,103,168
Changes in operating assets and liabilities		
Accounts receivable:		
Utility	1,008,385	(169,614)
Other governmental agencies	(229,287)	(14,236)
Other	159,804	29,863
Inventories	(412,163)	(466,285)
Other current assets	(760,103)	(525,329)
Deferred outflows - pension related	(3,574,287)	629,640
Deferred outflows - OPEB related	1,266,367	1,258,146
Accounts payable	1,916,034	(1,220,213)
Payable to other governmental agencies	(688)	(1,588)
Customer deposits	(95,377)	347,476
Other current liabilities	229,610	(293,800)
OPEB liability	(4,149,615)	(10,076,029)
Net pension liability	8,945,793	(8,824,134)
Employee benefits payable	142,376	(7,491)
Deferred inflows - pension related	(5,786,180)	6,075,949
Deferred inflows - OPEB related	(253,852)	6,484,377
Net cash provided by operating activities	\$ 786,014	\$ 3,670,135
Noncash capital, financing, and investing activities		
Contributed capital assets	\$ 408,283	\$ 710,172
Unrealized loss on investments	\$ 2,553,122	\$ 10,608,111

See notes to financial statements.

NOTE 1 REPORTING ENTITY

The reporting entity includes all the funds of the Desert Water Agency (the Agency). The Agency is a special district created for the purpose of importing water and delivery of water to consumers within its service area. The Agency was founded as a groundwater management agency in the western Coachella Valley and started providing water service to customers in Palm Springs and Cathedral City. The Agency is governed by a five-member Board of Directors.

The Agency and the Desert Water Agency Financing Corporation (the Corporation) have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14 (GASB 14), *The Financial Reporting Entity*, as amended by GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, for inclusion of the Corporation as a blended component unit of the Agency. Accordingly, the financial activities of the Corporation have been included in the financial statements of the Agency.

The following are those aspects of the relationship between the Agency and the Corporation which satisfy GASB Statement No. 39 criteria:

- A. The Corporation's board of directors was appointed by the Agency's board of directors.
- B. The Agency is able to impose its will upon the Corporation, based on the following:
 - The Corporation has no employees. The Agency's general manager functions as an agent of the Corporation. The general manager does not receive additional compensation for work performed in this capacity.
 - The Agency exercises significant influence over the operations of the Corporation as it is anticipated that the Agency will be the sole lessee of all facilities owned by the Corporation. Likewise, it is anticipated that the Agency's lease payments will be the sole revenue source of the Corporation, with the exception of interest earned in the Corporation's trust accounts.
 - All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the Agency.
- C. The Corporation provides specific financial benefits or imposes specific financial burdens on the Agency based upon the following:
 - Any deficits incurred by the Corporation will be reflected in the lease payments of the Agency and any surpluses of the Corporation revert to the Agency at the end of the lease period.
 - The Agency has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

NOTE 1 REPORTING ENTITY (CONTINUED)

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on August 31, 2007. The Corporation was formed for the sole purpose of providing financing assistance to the Agency. Under an installment purchase agreement, the Corporation obtained title to certain Agency water project improvements. At the end of the installment purchase arrangement in 2037, the title of all Corporation property will pass to the Agency for no additional consideration.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing goods or services to the general public on a continuing basis (including depreciation) be financed or recovered primarily through user charges. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. An enterprise fund is accounted for on the flow of economic resources measurement focus. This means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the activity (whether current or noncurrent) are included on the statement of net position.

The Agency distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales and wastewater services while operating expenses pertain directly to the furnishing of those services. Nonoperating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basic Financial Statements

The basic financial statements are comprised of the statement of net position, the statement of revenues, expenses, and changes in net position, the statement of cash flows, and the related notes to the financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Agency considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The Agency invests funds with the State of California's Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as cash equivalents. For credit risk purposes, the fund is not rated.

Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents represent money paid to the Agency as a deposit for water infrastructure to be installed by the Agency on behalf of customers as well as property tax funds and replenishment assessment charges collected which are restricted for the State Water Project.

Investments

Investments are reported in the accompanying statements of net position at fair value based on the last reported sales price published on the national exchange. 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.

Accounts Receivable

Accounts receivable are reported at their net realizable value, less an allowance for uncollectible accounts, if deemed necessary. The Agency uses the allowance method for the write-off of bad debts. The Agency considers such factors as historical trends for collections and knowledge of financial stability of debtors to establish the allowance for doubtful accounts. Receivables are written off when management determines that the amount will not be collectible. As of June 30, 2023 and 2022, no allowance for uncollectible accounts receivable was considered necessary as all accounts receivable were deemed fully collectable.

Inventories

Inventories consist primarily of water meters, pipes, and pipe fittings for construction and repair of the Agency's water transmission and distribution system. Inventories are valued at cost using the average cost method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed. As of June 30, 2023 and 2022, no reserve for inventories was deemed necessary based on management's evaluation of the Agency's inventories.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

The County of Riverside (County) Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the Agency's share of property taxes and assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the Agency throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at 1.0 percent of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County, which have not been credited to the Agency's cash balance as of June 30. The property tax calendar is as follows:

	January 1
Lien date:	On July 1 for July 1 to June 30
Levy date:	November 1 - 1st installment
Due date:	February 1 - 2nd installment
	December 10 - 1st installment
Collection date:	April 10 - 2nd installment

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$10,000. Donated assets are recorded at estimated acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

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

Transmission and distribution system	50 years
Service lines	33-1/3 years
Wells and water treatment equipment	5 to 25 years
Other equipment and vehicles	5 to 11 years

Capitalized State Water Project costs are amortized over forty-five years.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Right to Use Assets

The Agency has recorded right to use leased assets as a result of implementing GASB Statement No. 87, *Leases*, as of and for the year ended June 30, 2022. The right to use assets are initially measured at an amount equal to the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use leased assets are amortized on a straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

Employee Benefits Payable

Employees of the Agency are entitled to paid vacation and paid attendance benefits, depending on length of service and other factors. The liability for these benefits has been accrued as employee benefits payable in the accompanying statements of net position. Vacation is accrued beginning on the first day of employment and ranges from 8 to 13.34 hours per month based on longevity with the Agency. The Agency is not liable to pay vacation hours accrued until the employee has been employed for six months. Employee Attendance Bonus Plan hours accrue monthly. The employees have an opportunity to earn a maximum of 80 hours per year in this plan.

Pension Accounting

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

Net Position

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

Net Investment in Capital Assets (including State Water Project costs) - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

Restricted Net Position - This component of net position consists of net position that is constrained by externally imposed requirements of creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation.

Unrestricted Net Position - This component of net position does not meet the definition of restricted or net investment in capital assets.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Policies

The Agency adopts an annual nonappropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Recent Accounting Pronouncements

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). 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 statement is effective for the reporting periods beginning after December 15, 2019, or fiscal year 2021. The Agency implemented GASB 87 as of and for the year ended June 30, 2022.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. As of June 30, 2023, the adoption of this statement did not have a material impact on the Agency's financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)* (GASB 96), which addresses new accounting and financial reporting requirements for SBITA for governments. SBITA which was previously recognized as an outflow of resources based on the payment provisions of the contract will be recognized as an intangible right-to-use subscription asset and a corresponding subscription liability. GASB 96 also provides criteria for outlays other than subscription payments, including implementation costs of a SBITA. The statement is effective for reporting periods beginning after June 2022. As of June 30, 2023, the adoption of this pronouncement did not have a material impact on the Agency's financial statements.

GASB has issued the below statements which may affect the Agency's financial reporting requirements in the future. The Agency is currently evaluating these statements to determine the potential impact that these statements will have on the Agency's financial statements.

GASB Statement No. 100 – In June 2022, GASB issued Statement No. 100, *Accounting Changes and Errors Corrections – an amendment of GASB Statement No. 62*. The objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections, the required disclosure in the notes to the financial statements, and how information that is affected by a change in accounting principle or error correction should be presented in the required supplementary information (RSI) and supplementary information (SI). The statement is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences* (GASB 101). The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The statement is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

NOTE 3 STATE WATER PROJECT

The Agency has contracted with the State Department of Water Resources to participate in the State Water Project to convey water from Northern California into the Southern California area. This participation requires payments in varying amounts by the Agency for many years into the future, including capital costs in connection with the transportation facilities, operations and maintenance ("OMP&R") costs, and variable costs for the actual delivery of water. The Agency's total future payments have been estimated at June 30, 2023 by the State Department of Water Resources through 2035 as follows:

Water system revenue bond surcharge	\$ 15,603,597
Conservation charges:	
Capital cost component (principal and interest)	5,425,277
Delta water charges	63,673,652
Transportation charges:	
Capital cost component (principal and interest)	45,929,798
Minimum operations, maintenance, power, and replacement (OMP&R)	87,855,753
Variable OMP&R	96,544,364
Off- aqueduct facility charges	223,519
East branch enlargement transportation charges:	
Capital cost component	4,396,206
Minimum OMP&R	<u>7,258,772</u>
Total estimated future payments	<u>\$ 326,910,938</u>

NOTE 3 STATE WATER PROJECT (CONTINUED)

As of June 30, 2023, the Agency has been billed formally through calendar year 2024 only. The policy of the Agency is not to accrue any amounts which are due after the fiscal year-end. The payments which have been billed but are not due until after the fiscal year-end are approximately as follows:

Capital cost component (delta water and transportation charges):	
Due July 1, 2023	\$ 1,912,536
Due January 1, 2024	2,344,252
Due July 1, 2024	2,344,250
Minimum OMP&R component:	
Water supply (delta water and transportation charges):	
Monthly payments of \$830,786 from July 1 to December 31, 2023	4,984,716
Monthly payments of \$1,061,210 for the calendar year 2024	12,734,518
Off- aqueduct power facilities:	
Monthly payments of \$7,015 from July 1 to December 31, 2023	42,090
Monthly payments of \$13,863 for the calendar year 2024	166,360
East Branch Enlargement Facilities:	
Monthly payments of \$63,075 from July 1 to December 31, 2023	378,450
Monthly payments of \$51,941 for the calendar year 2024	623,293
Estimated variable OMP&R component (water delivery charges):	
Monthly payments of \$605,136 from July 1 to December 31, 2023	3,630,817
Monthly payments of \$933,644 for the calendar year 2024	11,203,724
Water system revenue bond surcharge and 25 percent bond cover charge:	
Due July 1, 2023	695,714
Due January 1, 2024	760,266
Due July 1, 2024	760,265
Allocated capital costs of Tehachapi second afterbay facilities:	
Due September 1, 2023	48,150
Due March 1, 2024	48,415
Due September 1, 2024	48,415
Allocated capital costs of east branch enlargement:	
Due September 1, 2023	712,513
Due March 1, 2024	137,893
Due September 1, 2024	<u>872,129</u>
Total amounts billed but not yet due	<u>\$ 44,448,766</u>

The Agency has committed to purchase supplemental State Water Project water supply as they become available in the future. The future payments for this excess water are not determinable at this time.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments are reported in the statements of net position in the following captions:

	June 30, 2023	June 30, 2022
Cash and cash equivalents	\$ 26,785,545	\$ 26,868,934
Restricted cash and cash equivalents	14,332,270	28,943,556
Total cash and cash equivalents	41,117,815	55,812,490
Investments	123,882,528	119,385,068
Restricted investments	116,485,462	70,270,591
Total investments	240,367,990	189,655,659
Total cash, cash equivalents, and investments	\$ 281,485,805	\$ 245,468,149

For purposes of the following discussion, the Agency's cash and investments are classified as follows:

	June 30, 2023	June 30, 2022
Deposits	\$ 1,555,083	\$ 133,662
Investments	279,930,722	245,334,487
Total deposits and investments	\$ 281,485,805	\$ 245,468,149

Deposits

At June 30, 2023, the carrying amount of the Agency's deposits were \$1,555,083 and the bank balances were \$2,618,881.

Custodial Credit Risk

The Agency maintains deposits with financial institutions in excess of the Federal Depository Insurance Corporation's (FDIC) insurance limit of \$250,000. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit) in the Agency's name and places it ahead of general creditors of the institution. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments Authorized by the Agency's Investment Policy

Under the provisions of the Agency's investment policy adopted by Board Resolution No. 1301 in June 2023, which is in accordance with California Government Code Sections 53600 through 53686 et seq., the types of investments authorized for deposit are identified in the following table. Also, the following tables identify certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity*	Maximum Percentage of Portfolio	Maximum Investment in one Issuer	Maximum Credit Quality
U.S. Treasury Obligations	5 years	100%	100%	None
U.S. Agency Obligations	5 years	100%	100%	None
Local Agency Bonds	5 years	100%	100%	None
State Obligations	5 years	100%	100%	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper when DWA Portfolio is Under \$100mm	270 days	25%	Gov Code 53601(h)(2)(c)	Highest letter and number rating by an NRSRO
Commercial Paper when DWA Portfolio is Over \$100mm	270 days	40%	Gov Code 53601(h)(2)(c)	Highest letter and number rating by an NRSRO ***
Negotiable certificates of deposit (CD's)	5 years	30%	Gov Code Sect 53638	None
Non-Negotiable Certificates of deposit (CD's)	5 years	20 million one bank	Gov Code Sect 53638	None
Repurchase Agreements	1 year	100%	100%	None
Medium Term Notes of U. S. Corps. (Corporate Notes)	5 years	30%	10%	A or better
Mutual Funds and Money Market Mutual Funds	None	20%	100%	Highest letter or numerical rating
Obligations Issued by Desert Water Agency	5 years**	100%	100%	None
Local Agency Investment Fund (LAIF)	None	100%	100%	None

* Average life of portfolio at any time shall not exceed five years.

** Unless Board approval 3 months in advance.

*** NRSRO is defined as Nationally Recognized Statistical Ratings Organizations

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury Securities and LAIF that represent 5 percent or more of the total investments of the Agency as of June 30, 2023 and 2022 are as follows:

Issuer	Investment Type	2023	2022
Federal Farm Credit	U. S. agency securities	\$ 32,780,316	\$ 29,129,257
Federal National Mortgage Association	U. S. agency securities	16,687,151	17,834,818
Federal Home Loan Mortgage Corporation	U. S. agency securities	28,324,292	25,729,692
Federal Home Loan Bank	U. S. agency securities	78,792,450	58,873,585

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of highlighting exposure to interest rate risk, the fair value of investments is reported quarterly to the Board. Investments' fair value and effective duration (in years) at June 30, 2023 and 2022 are as follows:

Authorized Investment Type	2023		2022	
	Fair Value	Duration	Fair Value	Duration
U.S. Agency Obligations	\$ 160,278,650	1.90	\$ 134,410,530	2.65
Corporate Notes	54,504,295	2.29	46,878,029	1.99
Negotiable CD's	1,613,090	3.35	1,675,138	4.26
Local Agency Bonds	8,330,217	3.26	3,800,712	3.03
U.S. Treasury Obligations	15,641,738	0.88	2,891,250	1.35

Disclosures Relating to 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.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk (Continued)

Presented below is the actual rating by Standard and Poor's as of June 30 for each of the Agency's investment types:

<u>Authorized Investment</u>	<u>2023</u>	<u>2022</u>
AAA:		
Corporate Notes	\$ 2,883,906	\$ 4,994,554
AA (1-3):		
U.S. Agency Obligations	156,311,784	134,410,530
Corporate Notes	29,419,705	21,616,153
Local Agency Bonds	8,330,217	3,800,712
U.S. Treasury Obligations	5,763,281	2,891,250
A (1-3):		
Corporate Notes	22,200,684	20,267,322
Negotiable Certificates of Deposit	685,111	707,448
U.S. Agency Obligations	3,966,866	-
U.S. Treasury Obligations	9,878,457	-
BBB (1-3):		
Negotiable Certificates of Deposit	696,495	967,690
Not Rated:		
Negotiable Certificates of Deposit	231,484	-
Exempt from Disclosure:		
Local Agency Investment Funds	<u>39,562,732</u>	<u>55,678,828</u>
Total Investments	<u>\$ 279,930,722</u>	<u>\$ 245,334,487</u>

Fair Value of Investments

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Investments (Continued)

The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets as of the measurement date in active markets that the Agency has the ability to access.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3 Inputs to the valuation methodology are unobservable and include situations where there is little, if any, market activity for the investment.

An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Obligations of U.S. government agencies - Valued at the closing price reported in the active market on which the individual securities are traded.

Negotiable certificates of deposit - Valued at the closing price reported on the active market on which the negotiable paper is traded.

Corporate notes - Valued at the closing price reported on the active market on which the notes are traded.

Municipal bonds - Valued at the coded price reported in the active markets for identical assets.

U.S. Treasury - Valued at the coded price reported in the active markets for identical assets.

California State Treasurer Local Agency Investment Fund (LAIF) - The Agency is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, with the Treasurer of the State of California serving as chairman. The fair value of the Agency's position in the pool approximates the value of the pool shares. LAIF is not subject to fair value leveling.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Investments (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
U.S. Agency Obligations \$	-	\$ 160,278,650	-	\$ 160,278,650
Negotiable Certificate of Deposit	-	1,613,090	-	1,613,090
Corporate Notes	-	54,504,295	-	54,504,295
Local Agency Bonds	-	8,330,217	-	8,330,217
U.S. Treasury Obligations	-	15,641,738	-	15,641,738
	-	240,367,990	-	240,367,990
Not subject to leveling - LAIF	-	-	-	39,562,732
Total	\$ -	\$ 240,367,990	\$ -	\$ 279,930,722

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
U.S. Agency Obligations \$	-	\$ 134,410,530	-	\$ 134,410,530
Negotiable Certificate of Deposit	-	1,675,138	-	1,675,138
Corporate Notes	-	46,878,029	-	46,878,029
Local Agency Bonds	-	3,800,712	-	3,800,712
U.S. Treasury Obligations	-	2,891,250	-	2,891,250
	-	189,655,659	-	189,655,659
Not subject to leveling - LAIF	-	-	-	55,678,828
Total	\$ -	\$ 189,655,659	\$ -	\$ 245,334,487

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Investments (Continued)

At June 30, 2023 and 2022, the Agency had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years then ended. The balance available for withdrawal in LAIF is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. There are no limitations on the withdrawal of these funds.

Desert Water Agency
Notes to Financial Statements
Years ended June 30, 2023 and 2022

NOTE 5 CAPITAL ASSETS

For the year ended June 30, 2023, the changes in the Agency's capital assets were as follows:

	Balance 7/1/2022	Additions	Disposals/ Transfers	Balance 6/30/2023
Nondepreciable assets:				
Land	\$ 12,070,625	\$ -	-	\$ 12,070,625
Construction in Progress	5,870,541	2,429,648	(2,326,276)	5,973,913
Total nondepreciable assets	<u>17,941,166</u>	<u>2,429,648</u>	<u>(2,326,276)</u>	<u>18,044,538</u>
Depreciable assets:				
State Water Project	132,422,668	5,382,312	-	137,804,980
Mains	109,274,199	1,866,857	(45,202)	111,095,854
Wells, intakes, pumps	25,731,333	-	-	25,731,333
Water reclamation	29,562,788	18,814	-	29,581,602
Water transportation facilities	25,605,867	-	-	25,605,867
Wastewater transportation facilities	23,132,609	161,962	-	23,294,571
Hydro-electric plants	5,096,112	-	-	5,096,112
Water treatment	3,128,301	-	-	3,128,301
Services	22,667,558	1,608,974	(178,764)	24,097,768
Meters	7,978,906	887,171	(111,941)	8,754,136
Fire services and hydrants	17,461,406	348,241	(6,470)	17,803,177
Reservoirs	17,655,354	-	-	17,655,354
Structures and improvements	21,726,179	125,692	-	21,851,871
Building	4,096,254	97,488	-	4,193,742
Equipment	12,612,987	285,653	-	12,898,640
Other	19,695	-	-	19,695
Total depreciable assets	<u>458,172,216</u>	<u>10,783,164</u>	<u>(342,377)</u>	<u>468,613,003</u>
Total capital assets	<u>\$ 476,113,382</u>	<u>\$ 13,212,812</u>	<u>\$ (2,668,653)</u>	<u>\$ 486,657,541</u>
Less accumulated depreciation:				
State Water Project	\$ (100,031,091)	\$ (836,582)	-	\$ (100,867,673)
Mains	(47,769,836)	(1,940,961)	44,089	(49,666,708)
Wells, intakes, pumps	(15,283,958)	(573,726)	-	(15,857,684)
Water reclamation	(21,058,758)	(697,809)	-	(21,756,567)
Water transportation facilities	(4,328,679)	(243,524)	-	(4,572,203)
Wastewater transportation facilities	(8,530,377)	(577,307)	-	(9,107,684)
Hydro-electric plants	(4,957,199)	(16,209)	-	(4,973,408)
Water treatment	(2,195,571)	(69,088)	-	(2,264,659)
Services	(10,391,322)	(746,080)	165,178	(10,972,224)
Meters	(2,302,131)	(298,365)	82,177	(2,518,318)
Fire services and hydrants	(9,148,154)	(395,908)	5,460	(9,538,602)
Reservoirs	(11,383,587)	(378,342)	-	(11,761,929)
Structures and improvements	(12,455,773)	(761,262)	-	(13,217,035)
Building	(3,122,122)	(138,187)	-	(3,260,309)
Equipment	(10,773,914)	(629,069)	-	(11,402,983)
Total accumulated depreciation	<u>(263,732,472)</u>	<u>(8,302,419)</u>	<u>296,905</u>	<u>(271,737,987)</u>
Total depreciable assets, net	<u>194,439,744</u>	<u>2,480,745</u>	<u>(45,472)</u>	<u>196,875,016</u>
Total capital assets, net	<u>\$ 212,380,910</u>	<u>\$ 4,910,393</u>	<u>\$ (2,371,748)</u>	<u>\$ 214,919,554</u>

Desert Water Agency
Notes to Financial Statements
Years ended June 30, 2023 and 2022

NOTE 5 CAPITAL ASETS (CONTINUED)

For the year ended June 30, 2022, the changes in the Agency's capital assets were as follows:

	Balance 7/1/2021	Additions	Deletions/ Transfers	Balance 6/30/2022
Nondepreciable assets:				
Land	\$ 12,070,625	\$ -	\$ -	\$ 12,070,625
Construction in Progress	3,907,939	2,223,843	(261,241)	5,870,541
Total nondepreciable assets	15,978,564	2,223,843	(261,241)	17,941,166
Depreciable assets:				
State Water Project	126,845,035	5,577,633	-	132,422,668
Mains	108,865,981	552,014	(143,796)	109,274,199
Wells, intakes, pumps	25,817,223	50,482	(136,372)	25,731,333
Water reclamation	29,596,101	-	(33,313)	29,562,788
Water transportation facilities	25,605,867	-	-	25,605,867
Wastewater transportation facilities	22,963,559	169,050	-	23,132,609
Hydro-electric plants	5,096,112	-	-	5,096,112
Water treatment	3,128,301	-	-	3,128,301
Services	21,575,668	1,357,467	(265,577)	22,667,558
Meters	6,941,053	1,089,054	(51,201)	7,978,906
Fire services and hydrants	17,231,566	308,709	(78,869)	17,461,406
Reservoirs	17,655,354	-	-	17,655,354
Structures and improvements	21,712,697	13,482	-	21,726,179
Building	4,093,009	3,245	-	4,096,254
Equipment	12,501,247	167,368	(55,628)	12,612,987
Other	19,695	-	-	19,695
Total depreciable assets	449,648,468	9,288,504	(764,756)	458,172,216
Total capital assets	\$ 465,627,032	\$ 11,512,347	\$ (1,025,997)	\$ 476,113,382
Less accumulated depreciation:				
State Water Project	\$ (99,319,063)	\$ (712,028)	-	\$ (100,031,091)
Mains	(45,960,282)	(1,924,724)	115,170	(47,769,836)
Wells, intakes, pumps	(14,779,869)	(575,820)	71,731	(15,283,958)
Water reclamation	(20,391,653)	(699,085)	31,980	(21,058,758)
Water transportation facilities	(4,085,155)	(243,524)	-	(4,328,679)
Wastewater transportation facilities	(7,960,699)	(569,678)	-	(8,530,377)
Hydro-electric plants	(4,939,336)	(17,863)	-	(4,957,199)
Water treatment	(2,125,164)	(70,407)	-	(2,195,571)
Services	(9,914,831)	(707,643)	231,152	(10,391,322)
Meters	(2,070,525)	(265,436)	33,830	(2,302,131)
Fire services and hydrants	(8,807,036)	(393,317)	52,199	(9,148,154)
Reservoirs	(11,005,193)	(378,394)	-	(11,383,587)
Structures and improvements	(11,696,661)	(759,112)	-	(12,455,773)
Building	(2,983,049)	(139,073)	-	(3,122,122)
Equipment	(10,182,476)	(647,065)	55,627	(10,773,914)
Total accumulated depreciation	(256,220,992)	(8,103,169)	591,689	(263,732,472)
Total depreciable assets, net	193,427,476	1,185,335	(173,067)	194,439,744
Total capital assets, net	\$ 209,406,040	\$ 3,409,178	\$ (434,308)	\$ 212,380,910

NOTE 5 CAPITAL ASETS (CONTINUED)

Construction in Progress

The Agency has begun construction of pipeline projects and numerous other smaller projects. Upon completion of these projects, they will be placed in service and depreciation will commence. As of June 30, total costs expended to date and the total budget for the projects are summarized as follows:

	June 30,			
	2023		2022	
	Cost of Construction in Progress	Total Budget	Cost of Construction in Progress	Total Budget
Major projects	\$ 4,745,047	\$ 22,740,100	\$ 5,295,341	\$ 26,040,100
All other projects	1,228,866	5,239,486	575,200	3,177,508
Total	\$ 5,973,913	\$ 27,979,586	\$ 5,870,541	\$ 29,217,608

Right to Use Assets

The Agency has recorded right to use assets for leased vehicles. The right to use leased assets are amortized on a straight-line basis over the term of the related leases or useful life of the underlying assets, whichever is shorter. As of June 30, 2023 and 2022, the right to use leased assets of \$65,563 and \$62,461, respectively, and related accumulated depreciation of \$19,669 and \$8,328 respectively, are recorded as a component of capital assets, net.

NOTE 6 LEASE RECEIVABLE

The Agency has entered into property leases with various lessees with lease terms ranging from 5 to 20 years. Lease receivable is measured at the present value of lease payments expected to be received during the lease term. The discount rate used is equivalent to the Agency's average annual investment earnings rate for LAIF of 0.37 percent for fiscal year 2023 and 0.5 percent for fiscal year 2022.

Deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. Deferred inflow of resources is amortized on a straight-line basis over the term of the related lease.

As of June 30, 2023 and 2022, the Agency has recorded a total lease receivable of \$2,162,170 and \$2,347,206, respectively, and the Agency recognized \$2,128,809 and \$2,351,252, respectively, of deferred inflow of resources.

Desert Water Agency
Notes to Financial Statements
Years ended June 30, 2023 and 2022

NOTE 7 LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2023 was as follows:

	Outstanding July 1, 2022	Additions	Reductions	Outstanding June 30, 2023	Amount due within on year
Long- term debt (Note 8)					
Water revenue refunding					
bonds	\$ 15,475,000	\$	\$ (780,000)	\$ 14,695,000	\$ 800,000
Bond premium	1,417,101		(101,221)	1,315,880	-
Total long term debt	<u>16,892,101</u>	<u>-</u>	<u>(881,221)</u>	<u>16,010,880</u>	<u>800,000</u>
Other long- term liabilities					
Other employee benefits					
payable	1,452,520	142,376	-	1,594,896	-
OPEB liability (Note 13)	23,161,439	1,017,842	(5,167,457)	19,011,824	-
Net pension liability (Note 11)	6,979,956	8,945,793	-	15,925,749	-
Total long term liabilities	<u>\$ 48,486,016</u>	<u>\$ 10,106,011</u>	<u>\$ (6,048,678)</u>	<u>\$ 52,543,349</u>	<u>\$ 800,000</u>

Long-term liabilities activity for the year ended June 30, 2022 was as follows:

	Outstanding July 1, 2021	Additions	Reductions	Outstanding June 30, 2022	Amount due within on year
Long- term debt (Note 8)					
Water revenue refunding					
bonds	\$ 16,220,000	\$ -	\$ (745,000)	\$ 15,475,000	\$ 780,000
Bond premium	1,518,322		(101,221)	1,417,101	-
Total long term debt	<u>17,738,322</u>	<u>-</u>	<u>(846,221)</u>	<u>16,892,101</u>	<u>780,000</u>
Other long- term liabilities					
Other employee benefits					
payable	1,460,011	-	(7,491)	1,452,520	-
OPEB liability (Note 13)	33,237,468	1,532,243	(11,608,272)	23,161,439	-
Net pension liability (Note 11)	15,804,090	-	(8,824,134)	6,979,956	-
Total long term liabilities	<u>\$ 68,239,891</u>	<u>\$ 1,532,243</u>	<u>\$ (21,286,118)</u>	<u>\$ 48,486,016</u>	<u>\$ 780,000</u>

NOTE 8 LONG-TERM DEBT

On June 29, 2016, the Desert Water Agency Financing Corporation issued \$19,720,000 Water Revenue Refunding Bonds, Series 2016 to provide funds to defease and advance refund the Agency's outstanding Certificates of Participation (Water System Improvement Project) Series 2007 (COPS) outstanding at that date in the amount of \$21,420,000 and to pay the debt issue costs. A premium of \$2,024,430, related to the new debt issue, was recognized and is being amortized over the life of the new debt issue of 20 years. Amortization expense for the premium on the new debt was \$101,221 for each of the years ended June 30, 2023 and 2022. The bonds are payable from and secured by the Agency's pledge of net revenues defined generally as gross revenues received from the Agency's water system. The bonds bear interest at various rates from 2 to 5 percent and are payable on May 1 and November 1 of each year commencing on November 1, 2016. The cost to retire the COPs was \$23,372,318 including debt issue costs. The refunding produced a loss on the advance refunding of the old debt in the amount of \$1,420,128 which has been recorded as deferred outflows of resources and is being amortized over the life of the new debt or 20 years. As of June 30, 2023 and 2022, the balance of the deferred loss on refunding was \$941,806 and \$1,014,252, respectively.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Future principal and interest payments for the Water Revenue Refunding Bonds Series 2016 as of June 30, 2023 are as follows:

Year ending June 30,	Principal	Interest
2024	\$ 800,000	\$ 544,650
2025	830,000	512,650
2026	865,000	479,450
2027	895,000	444,850
2028 through 2032	5,150,000	1,567,500
2033 through 2037	6,155,000	564,750
	\$ 14,695,000	\$ 4,113,850

The Agency incurred bond interest expense for the years ended June 30, 2023 and 2022 in the amount of \$633,347 and \$661,450, respectively.

NOTE 9 RESERVES AND DESIGNATIONS OF UNRESTRICTED NET POSITION

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, a governmental entity may establish "reserves" of unrestricted net position to segregate balances which are not available for expenditure in future periods, or which are legally set aside for a future specific use, or established to indicate tentative plans for financial resource utilization in future periods.

The Agency's reserves and designations of unrestricted net position at June 30 are presented below:

	2023	2022
Reserve for additional non-State Water Project (SWP) water	\$ 59,086,400	\$ 23,782,000
Reserve for operations	24,843,500	22,494,050
Reserve for replacements	13,106,800	11,652,800
Reserve for regulatory compliance	10,000,000	7,765,000
Reserve for land acquisition	5,675,000	5,675,000
Reserve for retirement benefits	5,000,000	5,000,000
Reserve for disaster response	2,000,000	2,000,000
Reserve State Water Project	-	493,654
Reserve for additional SWP water	-	10,493,000
Total designated	119,711,700	89,355,504
Undesignated (over designated)	(16,496,159)	9,060,376
Total unrestricted net position	\$ 103,215,541	\$ 98,415,880

NOTE 10 JOINT VENTURES

The Agency participates in a joint venture under a joint powers agreement with the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The relationship between the Agency and the JPA is such that the JPA is not a component unit of the Agency for financial reporting purposes. Audited financial statements are available by contacting the JPIA at 2100 Professional Drive, Roseville, California 95661.

The JPIA arranges for and provides insurance coverage for its approximately 401 member districts. JPIA is governed by a board of directors and each member agency is required to designate one representative from its local board of directors to participate in the JPIA board. From the JPIA's board of directors, eight members of a nine-member executive committee are elected and delegated the authority to make JPIA's preliminary policy decisions relying upon input received from other standing and ad hoc committees and subcommittees.

These policy decisions, along with other matters such as financial and claims data, are ultimately brought before the full board for review and/or ratification. JPIA's board of directors controls the operations of the JPIA, including the selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board.

JPIA provides joint protection coverage for losses in excess of the member districts' individually specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of the Agency's specified self-insurance coverage limit are covered by excess insurance policies purchased from commercial insurance carriers (see also Note 14).

Condensed audited financial information of the JPIA as of and for the year ended September 30, 2022 and 2021 (most recent available) follows:

	2022	2021
Total assets	\$ 246,615,214	\$ 271,770,359
Deferred outflows of resources	6,108,562	1,189,142
Total assets and deferred outflows of resources	\$ 252,723,776	\$ 272,959,501
Total liabilities	\$ 137,126,606	\$ 123,558,690
Deferred inflows of resources	2,813,249	(409,721)
Net position	112,783,921	149,810,532
Total liabilities, deferred inflows, and net position	\$ 252,723,776	\$ 272,959,501
Total operating revenues	\$ 209,690,228	\$ 189,317,732
Total operating expenses	(212,646,028)	(174,760,456)
Total nonoperating revenues (expenses), net	(34,070,811)	11,566,049
Change in net position	\$ (37,026,611)	\$ 26,123,325

NOTE 11 PENSION PLAN

General Information About the Pension Plan

Plan Description

All qualified Agency employees are required to participate in the Desert Water Agency Miscellaneous Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), unless they specifically opt out. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Agency selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, membership, and financial information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, with one year of credited service being equal to one year of full-time employment. All members are eligible for improved non-industrial disability benefits after five years of service. The Agency has chosen the Optional Settlement 2W Death Benefit.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Agency's total employer contributions were \$3,159,032 and \$3,003,622 for the years ended June 30, 2023 and 2022, respectively.

Active plan members who were hired before January 1, 2013 are referred to as "Classic" employees. Beginning January 1, 2013, the Agency established two classes of employees, as dictated by the newly enacted Public Employees Pension Reform Act (PEPRA).

NOTE 11 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Contribution Description (Continued)

The Plan's provisions and benefits in effect at June 30, 2023 and 2022 are summarized as follows:

Hire date	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5 percent at 55	2.0 percent at 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	36 months
Sick leave credit	Yes	Yes
Retirement age	50 to 55	52 to 67
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Cost of living adjustment	2.00%	2.00%
Required employee contribution rates		
2023	8.0 percent	7.25 percent
2022	8.0 percent	7.25 percent
Required employer contribution rates		
2023	13.02% + \$1,204,322	7.76% + \$0
2022	12.99% + \$1,114,102	7.73% + \$1,939

NOTE 11 PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Methods and Assumptions

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the total pension liability determined in the June 30, 2021 actuarial valuation. The June 30, 2022 total pension liability was based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Investment rate of return	6.90%
Inflation	2.30%
Salary increases	Varies by entry age and service
Mortality rate table	Derived using CalPERS' membership data for all funds
Post-retirement benefit increase	Contract COLA up to 2.30% until purchasing power protection allowance floor on purchasing power applies

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP-2016. For more details on this table, please refer to the December 2017 CalPERS experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Long-term Expected Rate of Return

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

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.

NOTE 11 PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

The table below reflects long-term expected real rate of return by asset class.

<u>Asset Class¹</u>	<u>Asset Allocation</u>	<u>Real Return^{1,2}</u>
Global equity - cap-weighted	30.00%	4.54%
Global equity - noncap-weighted	12.00%	3.84%
Private equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed securities	5.00%	0.50%
Investment grade corporates	10.00%	1.56%
High yield	5.00%	2.27%
Emerging market debt	5.00%	2.48%
Private debt	5.00%	3.57%
Real assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	<u><u>100.00%</u></u>	

¹In CalPERS' ACFR, Commodities and REITs are included in Public Equity: TIPS are included in Fixed Income.

²An expected inflation of 2.30% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 6.90 percent. 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.

NOTE 11 PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability

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

The following table presents the net pension liability of the Plan as of the June 30, 2022 and 2021 measurement date calculated using the discount rate in effect at year end. The table also shows what the net pension liability would be if it were calculated using a discount rate that is 1.0 percentage-point lower or 1.0 percentage-point higher than the current rate:

	Measurement Date	Discount Rate	Current Discount	Discount Rate +1%
Net pension liability	June 30, 2022	(5.90%)	(6.90%)	(7.90%)
		\$ 25,996,033	\$ 15,925,749	\$ 7,640,405
Net pension liability	2021	(6.15%)	(7.15%)	(8.15%)
		\$ 16,007,535	\$ 6,979,956	\$ (483,014)

Pension Plan Fiduciary Net Position

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

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss as follows:

Difference between projected and actual earnings on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

NOTE 11 PENSION PLAN (CONTINUED)

Pension Related Liabilities, Expense, and Deferred Outflows/Deferred Inflows of Resources

The Agency's net pension liability is measured as the proportionate share of the net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability as of the June 30, 2022 measurement date was 0.34 percent. This represents a 0.01 percent change since the prior measurement date.

For the years ended June 30, 2023 and 2022, the Agency recognized pension expense of \$2,744,357 and \$885,077, respectively. At June 30, 2023 and 2022, the Agency's deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2023	2022	2023	2022
Changes of assumptions	\$ 1,631,926	\$ -	\$ -	\$ -
Differences between expected and actual experience	319,820	782,727	(214,202)	-
Net differences between projected and actual investment earnings	2,917,174	-	-	(6,093,131)
Differences between employer's contributions and proportionate share of contributions	580,162	1,247,478	(1,584)	-
Change in employer's proportion	-	-	(1,378,022)	(1,286,857)
Pension contributions subsequent to measurement date	<u>3,159,032</u>	<u>3,003,622</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,608,114</u>	<u>\$ 5,033,827</u>	<u>\$ (1,593,808)</u>	<u>\$ (7,379,988)</u>

The amounts above are net of outflows and inflows recognized in the pension expense for the years ended June 30, 2023 and 2022. The \$3,159,032 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 ending June 30, 2024.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2024	\$ 911,396
2025	763,685
2026	395,949
2027	<u>1,784,244</u>
Total	<u>\$ 3,855,274</u>

NOTE 12 DEFINED CONTRIBUTION PLAN AND DEFERRED COMPENSATION PLAN

The Agency has a defined contribution plan and there is one employee eligible to participate in this plan (the “eligible employee”). All contributions by the Agency are fully vested upon receipt. The eligible employee cannot contribute directly to the defined contribution plan. The Agency contributes matching contributions to the defined contribution plan for any contributions the eligible employee makes to the defined contribution plan. The Agency contributed \$31,846 and \$26,652 to the defined contribution plan for the years ended June 30, 2023 and June 30, 2022, respectively.

There is also a deferred compensation plan under Internal Revenue Code (IRC) Section 457 available to Agency employees which the employees can voluntarily contribute to. The Agency makes contributions to the deferred compensation plan for certain eligible employees hired after May 1, 2007. The Agency contributed \$90,985 and \$86,650 to the deferred compensation plan for the years ended June 30, 2023 and 2022, respectively.

NOTE 13 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information About the OPEB Plan

Plan Description and Benefits Provided

The Agency, a single employer, offers postemployment benefits through the Association of California Water Agencies Health Plans. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. Employees who retire from the Agency on or after age 50, have at least 12 years of service, and were hired prior to May 1, 2007 are eligible for postemployment medical benefits. The Agency pays full retiree and spousal health premiums for eligible retirees. Surviving spouses of active employees at their time of death, whose sum of years of service and age equals 60 or above, will continue having premiums paid by the Agency for their lifetime. The Agency also pays full dental and vision premiums for eligible retirees, who have 25 years or more of Agency service, and their dependents.

Employees Covered

At June 30, 2022 (the measurement date), the following number of employees (including spouses) were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	81
Active employees	<u>27</u>
Total	<u><u>108</u></u>

Total OPEB Liability

The Agency's total OPEB liability of \$19,011,824 was measured as of June 30, 2022 and was determined by an actuarial valuation as of that date.

**NOTE 13 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(CONTINUED)**

Total OPEB Liability (Continued)

Actuarial Assumptions and Other Inputs

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

Salary increase	CalPERS salary scale for Miscellaneous employees hired at age 30
Discount rate	3.54%
Healthcare cost trend rates	The assumed future increases to the health costs and premiums are based on the "Getzen" model published by the Society of Actuaries. Dental and vision costs were assumed to increase at a rate of 3.50% per year.

The discount rate was based on the 20-year Bond GO Index as of the measurement date.

Mortality rates were based on statistics taken from the California PERS mortality rates which project generationally using 80% of Scale MP-2020.

All other actuarial assumptions used in the June 30, 2022 (measurement date) valuation were based on the results of the CalPERS valuation experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change in the Total OPEB Liability

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Balance, June 30, 2021 and 2020 (measurement date) \$	23,161,439	\$ 33,237,468
Changes for the year:		
Service Cost	514,837	789,682
Interest	503,005	742,561
Difference between expected and actual experience	-	(9,237,736)
Changes of assumptions	(4,385,333)	(1,511,619)
Benefit payments	(782,124)	(858,917)
Balance, June 30, 2022 and 2021 (measurement date) \$	<u>19,011,824</u>	<u>\$ 23,161,439</u>

Changes of assumptions reflect a change in the discount rate from 2.16 percent as of the June 30, 2021 measurement date to 3.54 percent as of the June 30, 2022 measurement date.

NOTE 13 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(CONTINUED)

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

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

	Discount Rate -1% 2.54%	Current Rate 3.54%	Discount Rate +1% 4.54%
Total OPEB liability	\$ 22,057,096	\$ 19,011,824	\$ 16,538,040

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

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

	Trend Rate -1%	Current Trend Rate	Trend Rate +1%
Total OPEB liability	\$ 16,122,458	\$ 19,011,824	\$ 22,683,213

For the years ended June 30, 2023 and 2022, the Agency recognized OPEB expense of (\$2,422,492) and \$1,533,884, respectively. The Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of June 30, 2023 and 2022:

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2023:		
Differences between expected and actual experience	\$ -	\$ (4,927,202)
Changes of assumptions	1,470,851	(4,054,023)
OPEB contributions subsequent to measurement date	578,721	-
Total	\$ 2,049,572	\$ (8,981,225)
June 30, 2022:		
Differences between expected and actual experience	\$ -	\$ (7,881,278)
Changes of assumptions	2,669,702	(1,353,799)
OPEB contributions subsequent to measurement date	646,237	-
Total	\$ 3,315,939	\$ (9,235,077)

**NOTE 13 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(CONTINUED)**

The \$578,721 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ (2,994,428)
2025	(3,349,771)
2026	(1,144,358)
2027	(21,817)
2028	-
Total	<u>\$ (7,510,374)</u>

NOTE 14 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance through participation in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) (see Note 10). The insurance purchased is for liability, property and workers' compensation insurance and there are various self-insured retention levels, similar to a deductible, per occurrence.

A summary of the Agency's self-insurance program is as follows:

- Property Loss - Insured up to the scheduled value with a \$25,000 deductible for buildings, personal property and fixed equipment and a \$5,000 deductible for mobile equipment.
- General and Auto Liability - Insured up to \$55,000,000 with aggregate policy limits. The JPIA is self-insured up to \$5,000,000 and excess insurance coverage has been purchased through the JPIA.
- Public Officials' Liability - Insured up to \$55,000,000 with aggregate policy limits. The JPIA is self-insured up to \$5,000,000 and excess insurance coverage has been purchased through the JPIA.
- Crime Liability - Insured up to \$100,000 for public employee theft, depositor's forgery or alteration and computer and funds transfer fraud with a deductible of \$1,000. The JPIA is self-insured up to \$100,000 and excess coverage has been purchased through the JPIA.

NOTE 14 RISK MANAGEMENT (CONTINUED)

- Cyber Liability - The Agency has purchased cyber liability coverage through the JPIA. The coverage limit is \$5,000,000.
- Workers' Compensation - Insured for statutory limits. Employer's liability is insured up to \$2,000,000 per occurrence. The JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased through the JPIA.

The Agency maintains separate Earthquake and Flood Insurance. Earthquake coverage includes a 5 percent or a \$50,000 minimum deductible. Flood coverage includes a \$50,000 deductible. The per occurrence and aggregate limit is \$37,579,374.

There have been no claims in excess of self-insurance coverage limits for the past 3 years.

NOTE 15 COMMITMENT AND CONTINGENCIES

Various claims and litigation involving the Agency are currently outstanding. The most significant activity is related to an action by the local tribe that is still pending in Federal District Court to adjudicate its reserved right to groundwater and its right to storage space beneath reservation lands. The outcome of these matters is not determinable at this time but could be significant if there is an unfavorable outcome.

The Agency has a \$13,796,066 contractual commitment as of June 30, 2023, related to constructing pipeline replacements. This commitment is due within the next fiscal year.

NOTE 16 SUBSEQUENT EVENTS

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through December 14, 2023, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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Desert Water Agency
Schedule of Pension Plan Contributions - Last 10 Years
June 30, 2023

Schedule of Pension Plan Contributions - Last 10 Years*

Fiscal Year	Contractually Required Contributions	Contributions in relation to the actuarially determined contributions	Contribution deficiency/ (Excess)	Covered Payroll	Contributions as a % of covered employee payroll
2023	\$ 2,159,032	\$ (3,159,032)	\$ (1,000,000)	\$ 8,882,791	35.56%
2022	2,003,622	(3,003,622)	(1,000,000)	8,153,827	36.84%
2021	2,262,927	(3,262,927)	(1,000,000)	7,721,227	42.26%
2020	2,121,647	(3,121,647)	(1,000,000)	7,253,560	43.04%
2019	1,849,946	(2,849,946)	(1,000,000)	7,026,860	40.56%
2018	1,586,919	(1,586,919)	-	6,050,470	26.23%
2017	1,461,680	(1,461,680)	-	6,021,869	24.27%
2016	1,379,325	(1,379,325)	-	5,952,152	23.17%
2015	1,208,856	(1,208,856)	-	5,808,831	20.81%

*Fiscal year 2015 was the first year of implementation, therefore, not all 10 years of information is available.

**Desert Water Agency
Schedule of the Agency's Proportionate Share
of the Net Pension Liability - Last 10 Plan Years
June 30, 2023**

Schedule of the Agency's Proportionate Share of the Net Pension Liability - Last 10 Plan Years*

Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a % of Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
2022	0.34%	\$ 15,925,749	\$ 8,882,791	179.29%	78.19%
2021	0.37%	6,979,956	8,153,827	85.60%	90.49%
2020	0.37%	15,804,090	7,721,227	204.68%	77.71%
2019	0.40%	15,957,880	7,253,560	220.00%	77.73%
2018	0.42%	15,975,305	7,026,860	227.35%	77.69%
2017	0.42%	16,466,171	6,050,470	272.15%	75.39%
2016	0.42%	14,563,532	6,021,869	241.84%	75.87%
2015	0.44%	12,000,195	5,952,152	201.61%	79.89%
2014	0.46%	11,449,416	5,808,831	197.10%	81.15%

*Fiscal year 2015 was the first year of implementation, therefore, not all 10 years of information is available.

Notes to the Pension Schedules:

Benefit Changes: None

Changes in Assumptions: For the measurement date of June 30, 2017, the discount rate was changed from 7.65 percent to 7.15 percent. For the measurement date of June 30, 2018, the inflation rate was changed from 2.75 percent to 2.50 percent. For the measurement date of June 30, 2022, the inflation rate was changed from 2.50 percent to 2.30 percent and & discount rate changed to 6.90 percent.

Desert Water Agency
Schedule of Changes in the Agency's
Total OPEB Liability and Related Ratios - Last Ten Plan Years*
June 30, 2023

Schedule of Changes in the Agency's Total OPEB Liability and Related Ratios - Last Ten Plan Years*

	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Balance beginning of year	\$23,161,439	\$33,237,468	\$28,314,463	\$29,198,670	\$29,766,869	\$32,704,594
Changes for the year						
Service Cost	514,837	789,682	585,056	631,297	664,025	809,859
Interest	503,005	742,561	996,782	1,137,027	1,076,226	947,450
Difference between expected and actual experience	-	(9,237,736)	-	(2,879,482)	(49,240)	-
Changes of assumptions	(4,385,333)	(1,511,619)	4,188,505	1,134,393	(1,413,861)	(4,102,481)
Benefit payments	(782,124)	(858,917)	(847,338)	(907,442)	(845,349)	(592,553)
Balance year-end	<u>\$19,011,824</u>	<u>\$23,161,439</u>	<u>\$33,237,468</u>	<u>\$28,314,463</u>	<u>\$29,198,670</u>	<u>\$29,766,869</u>
Covered Payroll	\$ 8,882,791	\$ 8,153,827	\$ 7,721,227	\$ 7,253,560	\$ 7,026,860	\$ 6,050,470
Plan net OPEB liability as a percentage of covered-employee payroll	214%	284%	430%	390%	416%	492%

*Fiscal year 2018 was the first year of implementation, therefore, not all 10 years of information is available.

Notes to the Schedule:

Changes of benefit terms: None

Changes of assumptions reflect a change in the discount rate for the following measurement dates:

- June 30, 2017 - 2.85% to 3.58%
- June 30, 2018 - 3.58% to 3.87%
- June 30, 2019 - 3.87% to 3.50%
- June 30, 2020 - 3.50% to 2.21%
- June 30, 2021 – 2.21% to 2.16%
- June 30, 2022 – 2.16% to 3.54%

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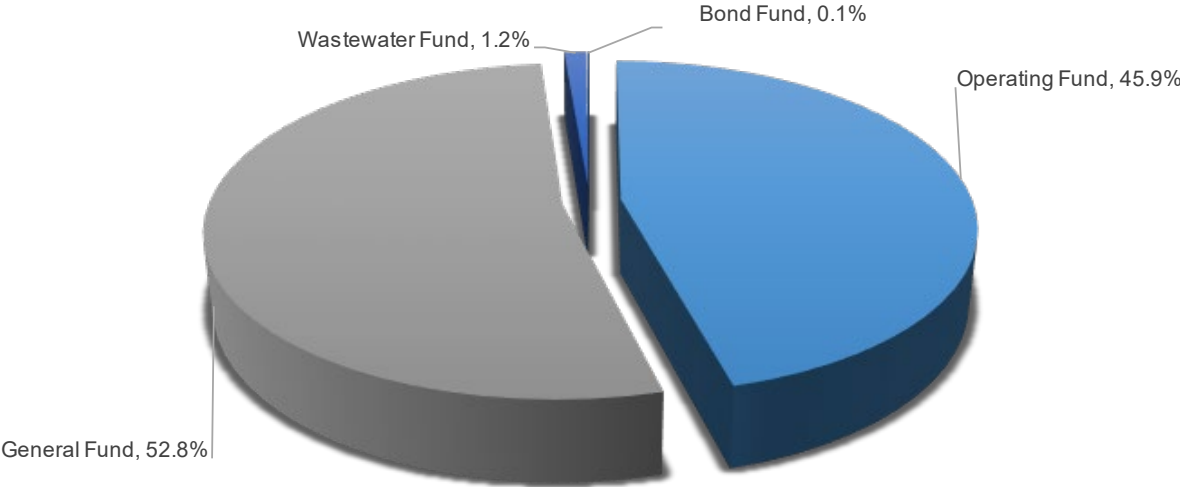
OTHER SUPPLEMENTARY INFORMATION

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**Desert Water Agency
Source of Revenues by Fund
Year Ended June 30, 2023**

**DESERT WATER AGENCY
SOURCE OF REVENUES
FISCAL YEAR 2022 - 2023**

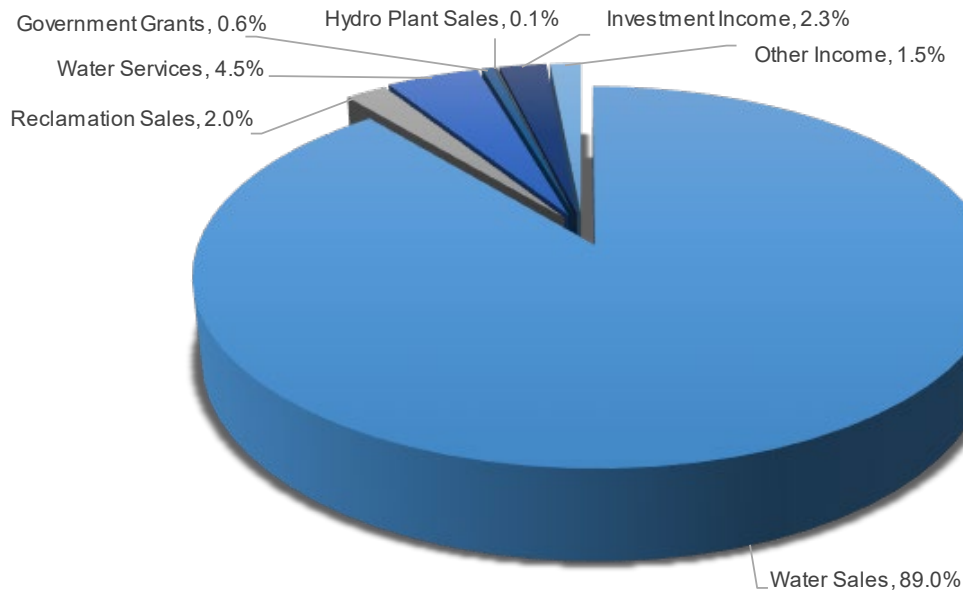
Fund Type	Amount	%
Operating Fund	\$ 43,814,350	45.9%
General Fund	50,453,140	52.8%
Wastewater Fund	1,189,930	1.2%
Bond Fund	101,645	0.1%
TOTAL	<u>\$ 95,559,065</u>	<u>100.0%</u>



**Desert Water Agency
Operating Fund Revenues
Year Ended June 30, 2023**

**DESERT WATER AGENCY
OPERATING FUND REVENUES
FISCAL YEAR 2022 - 2023**

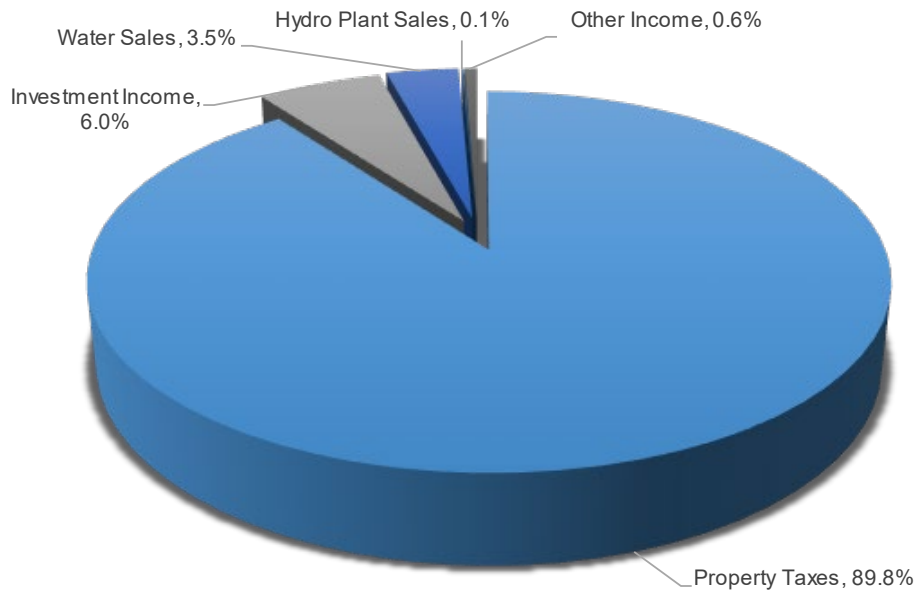
Revenue Source	Amount	%
Water Sales	\$ 38,983,355	89.0%
Reclamation Sales	895,990	2.0%
Water Services	1,966,849	4.5%
Government Grants	241,703	0.6%
Hydro Plant Sales	45,298	0.1%
Investment Income	1,029,348	2.3%
Other Income	651,807	1.5%
TOTAL	\$ 43,814,350	100.0%



**Desert Water Agency
General Fund Revenues
Year Ended June 30, 2023**

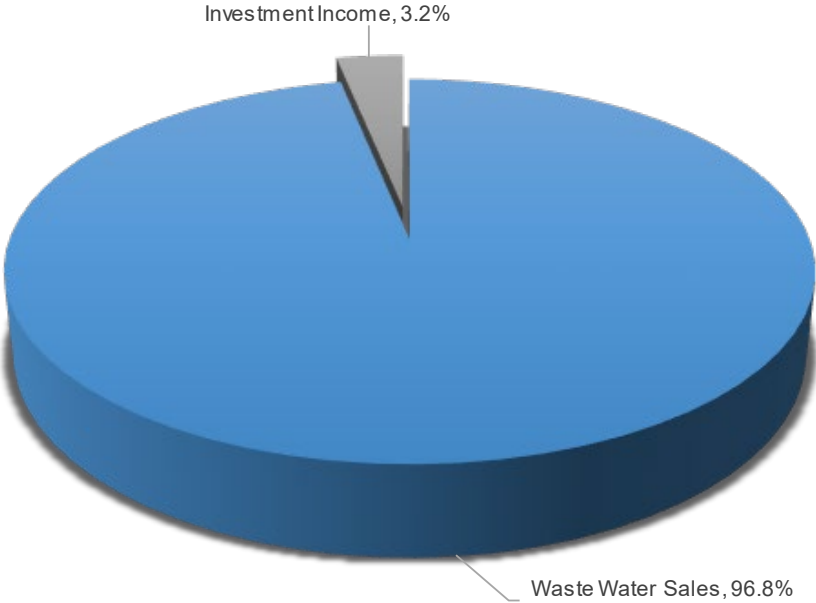
**DESERT WATER AGENCY
GENERAL FUND REVENUES
FISCAL YEAR 2022 - 2023**

Revenue Source	Amount	%
Property Taxes	\$ 45,286,416	89.8%
Investment Income	3,051,400	6.0%
Water Sales	1,753,124	3.5%
Hydro Plant Sales	48,429	0.1%
Other Income	313,771	0.6%
TOTAL	\$ 50,453,140	100.0%



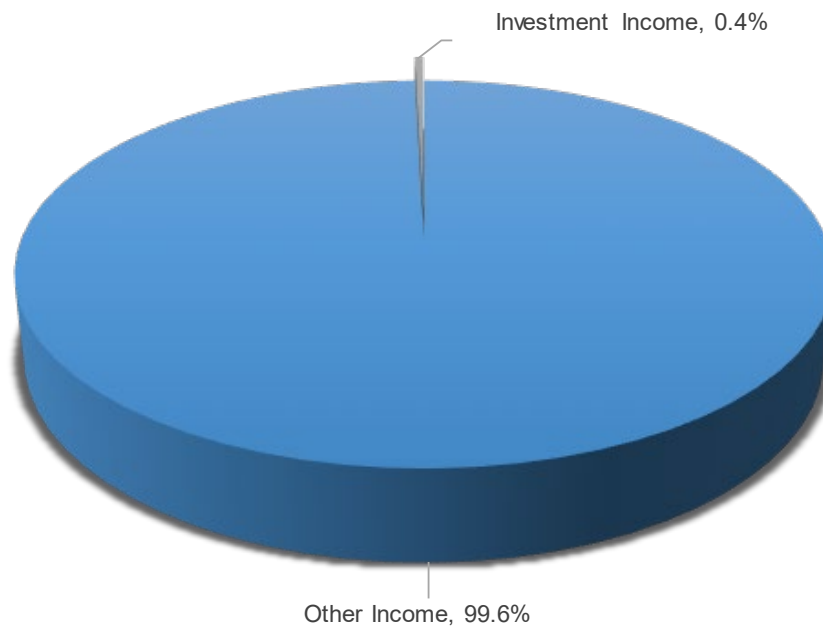
**DESERT WATER AGENCY
WASTEWATER FUND REVENUES
FISCAL YEAR 2022 - 2023**

Revenue Source	Amount	%
Waste Water Sales	\$ 1,152,400	96.8%
Investment Income	37,530	3.2%
TOTAL	\$ 1,189,930	100.0%



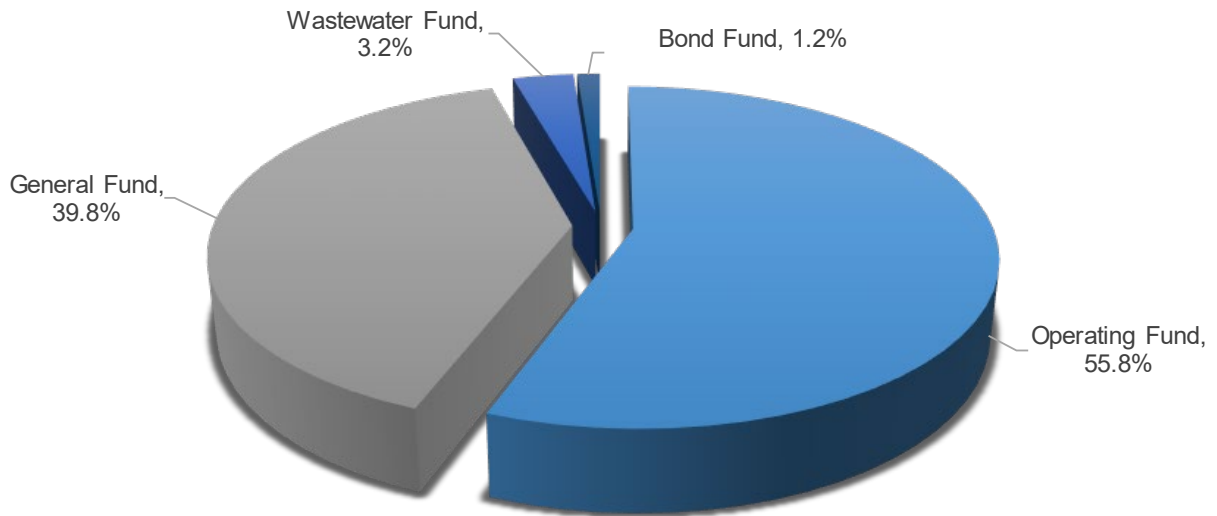
DESERT WATER AGENCY
BOND FUND REVENUES
FISCAL YEAR 2022 - 2023

Revenue Source	Amount	%
Other Income	\$ 101,221	99.6%
Investment Income	424	0.4%
TOTAL	\$ 101,645	100.0%



**DESERT WATER AGENCY
EXPENSES BY FUND
FISCAL YEAR 2022 - 2023**

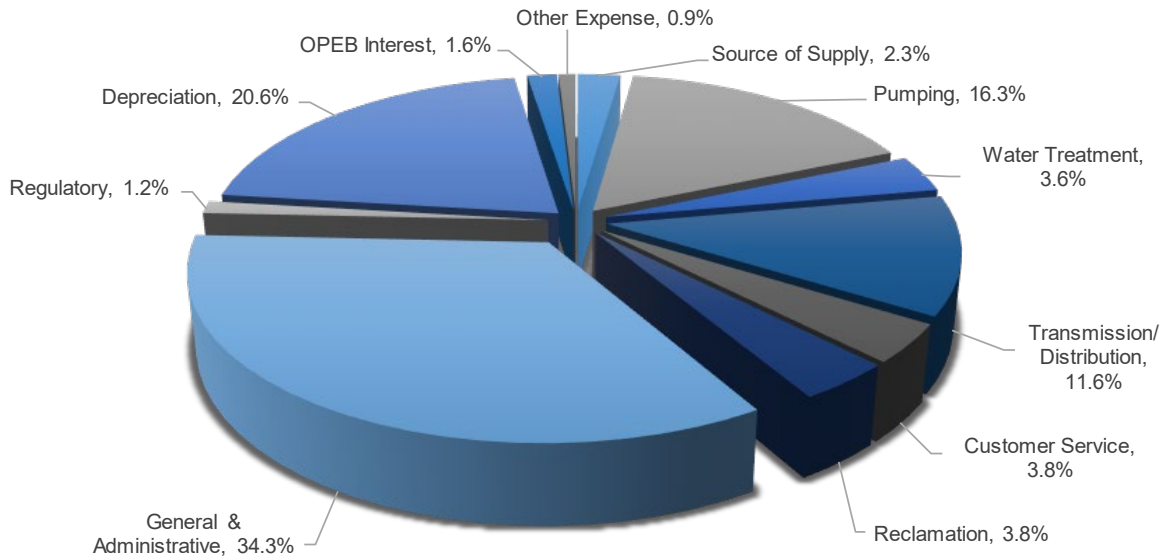
Fund Type	Amount	%
Operating Fund	\$ 30,515,345	55.8%
General Fund	21,747,857	39.8%
Wastewater Fund	1,736,143	3.2%
Bond Fund	635,597	1.2%
TOTAL	\$ 54,634,942	100.0%



**Desert Water Agency
Operating Fund Expenses
Year Ended June 30, 2023**

**DESERT WATER AGENCY
OPERATING FUND EXPENSES
FISCAL YEAR 2022 - 2023**

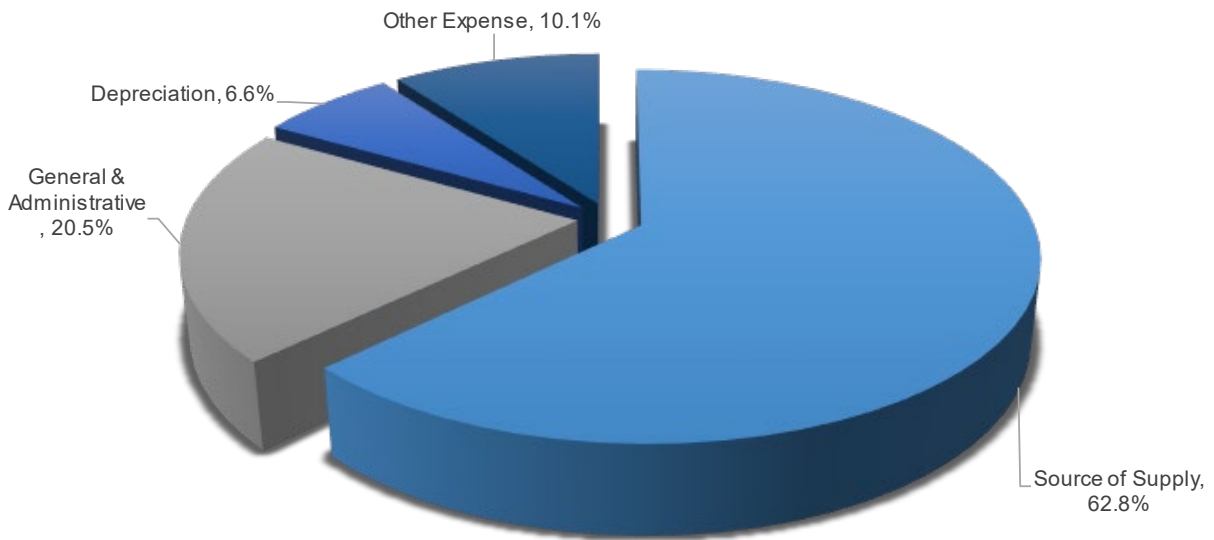
Expense Category	Amount	%
Source of Supply	\$ 692,777	2.3%
Pumping	4,962,228	16.3%
Water Treatment	1,109,190	3.6%
Transmission/Distribution	3,540,725	11.6%
Customer Service	1,147,813	3.8%
Reclamation	1,152,872	3.8%
General & Administrative	10,456,102	34.3%
Regulatory	378,864	1.2%
Depreciation	6,296,466	20.6%
OPEB Interest	503,005	1.6%
Other Expense	275,303	0.9%
TOTAL	\$ 30,515,345	100.0%



**Desert Water Agency
General Fund Expenses
Year Ended June 30, 2023**

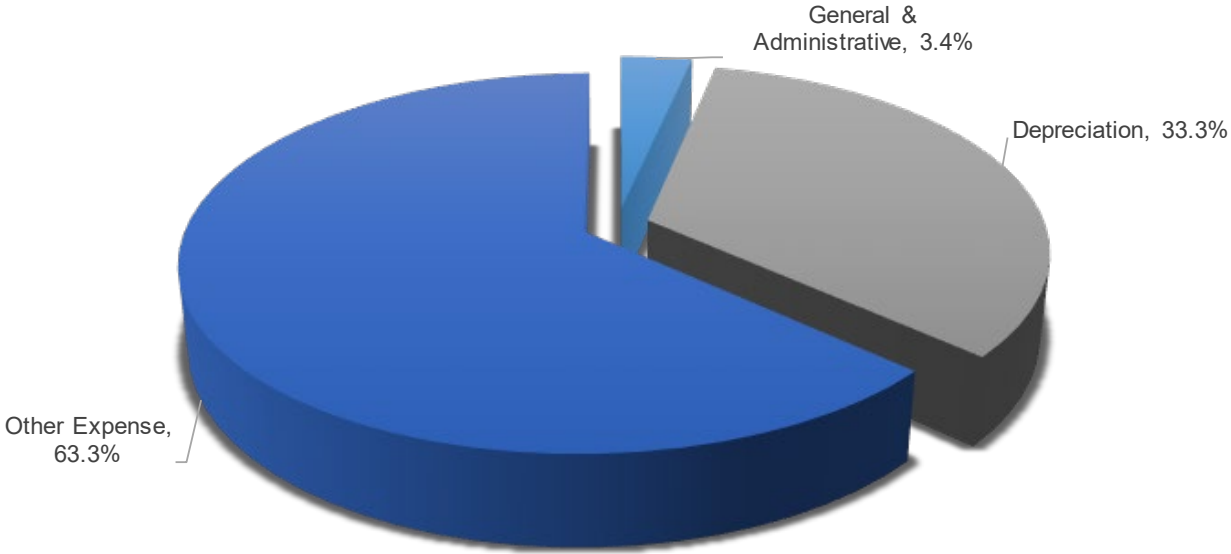
**DESERT WATER AGENCY
GENERAL FUND EXPENSES
FISCAL YEAR 2022 - 2023**

Expense Category	Amount	%
Source of Supply	\$ 13,655,782	62.8%
General & Administrative	4,464,139	20.5%
Depreciation	1,436,692	6.6%
Other Expense	2,191,244	10.1%
TOTAL	\$ 21,747,857	100.0%



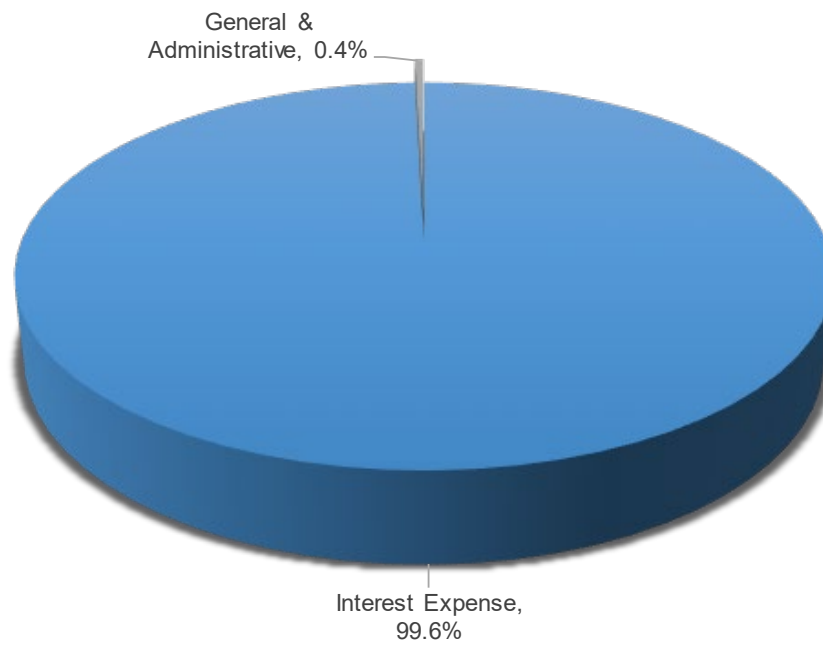
**DESERT WATER AGENCY
WASTEWATER FUND EXPENSES
FISCAL YEAR 2022 - 2023**

Expense Category	Amount	%
General & Administrative	\$ 59,460	3.4%
Depreciation	578,598	33.3%
Other Expense	<u>1,098,085</u>	<u>63.3%</u>
TOTAL	<u>\$ 1,736,143</u>	<u>100.0%</u>



**DESERT WATER AGENCY
BOND FUND EXPENSES
FISCAL YEAR 2022 - 2023**

Expense Category	Amount	%
Interest Expense	\$ 633,347	99.6%
General & Administrative	2,250	0.4%
TOTAL	\$ 635,597	100.0%



OTHER INFORMATION

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Organization and Description of the Agency

Desert Water Agency (the "Agency") was formed in September 1961 by the Legislature of the State of California through the enactment of special legislation. The Agency was formed for the purpose of importing water by contracting for participation in the State Water Project of the State Department of Water Resources and for any other activities authorized by the Legislature as proper for the Agency to conduct. The Agency's contract for water provides for delivery of up to 38,100 acre feet of water per year, starting at 8,000 acre feet and increasing annually until deliveries totaled the full contract amount in 1990. In 2004, the contract was amended to reflect an allotment of 50,000 acre feet. In 2007, the contract was again amended to reflect an allotment of 55,750 acre feet, effective January 1, 2010. The Agency negotiated an agreement with the Metropolitan Water Agency of Southern California (Metropolitan Water Agency) for the exchange of the Agency's entitlement to Northern California water for an equal amount of Metropolitan Water Agency's Colorado River water. The exchange agreement became effective when approved by the Secretary of the Interior on December 1, 1972 and extends until 2035.

The Agency started receiving this exchange water in September 1973 when the service connection to the Metropolitan Water Agency's aqueduct was completed.

The Agency is committed to pay its proportionate share of the capital and other costs of the State Water Project, including the capital costs in connection with both the transportation facilities and the conservation facilities, the operation and maintenance costs in connection therewith, and the variable costs incident to the actual delivery of water. Annually, the State Department of Water Resources (DWR) issues a bulletin known as the 132 Series in which the capital and operating costs are estimated for the life of the project. On June 30 of each year, DWR bills for the costs to be paid during the next succeeding calendar year. The capital costs are being capitalized as utility plant while the other costs are charged to operations. The capital costs are being amortized using a life of 45 years.

The Agency shares in the costs of the Whitewater Turnout and the Mission Creek Turnout with the Coachella Valley Water District (CVWD). The Mission Creek Turnout connection makes imported water available for spreading in the Mission Creek area of the Mission Springs Water District. These facilities are necessary to enable the Agency and CVWD to perform under the present agreement for the exchange of State Water Project water for Colorado River water with the Metropolitan Water Agency of Southern California, which agreement was referred to in a paragraph above. The Whitewater connection was constructed by Metropolitan Water Agency crews and was completed in September 1973. The Mission Creek connection was completed in the late 1990's. Although the Whitewater and Mission Creek turnouts from the Colorado River Aqueduct were constructed by Metropolitan Water District, the Agency and Coachella Valley Water District funded the costs of constructing those turnouts.

The Agency is also committed to pay in future years its share of the cost of supplemental water facilities which may be necessary to enable it to benefit fully from participation in the State Water Project. Such supplemental facilities could be in the form of an aqueduct to transport State Water Project water from Hesperia or San Bernardino to the Coachella Valley or could consist of a desalination plant and/or other facilities necessary to continue the exchange of the Agency's Northern California water entitlement for Colorado River water. The cost of supplemental water facilities will be shared by other agencies which will benefit from their construction. Anticipated costs may also include construction of new Delta conveyance facilities and the cost of participation in additional surface water storage facilities, such as the Sites Reservoir.

Organization and Description of the Agency (Continued)

The Agency entered into a water management agreement with the CVWD on July 1, 1976. The agreement establishes principles which control the continuation of the parties' imported water program and the allocation of costs for these programs. It further provides for the collection and analysis of data which serves as the basis for management of the natural and imported water supplies of the management area. This agreement was amended in July 2014 to reflect a change in the allocation of certain costs to more accurately reflect allocations of water to each party. The Agency and CVWD have also entered into a similar, additional agreement to allocate between them the cost of delivering imported water to the Mission Creek spreading facilities.

FACTORS BEARING ON THE AGENCY'S FUTURE

The Agency has participated (along with Coachella Valley Water District, Metropolitan Water District, and San Geronio Pass Water Agency) in a partnership studying a potential desert aqueduct connection to the State Water Project. This potential connection remains an option to enable the delivery and storage of water in the local groundwater basins.

The Department of Water Resources is in the final stages of creating a plan to address the Delta Conveyance Project and the aging and unreliable levees in the Delta. This plan will directly affect the state water contractors and the costs associated with the State Water Project.

The State Water Contractors and the Department of Water Resources are actively engaged in the State Water Project contract extension negotiations. The current contract expires in 2035 and both parties are working on extending the contract.

The Agency is participating in planning efforts for the Sites Reservoir Project along with many agricultural and municipal water providers throughout the State. The Agency is pursuing this project in order to meet its projected future increased water demands and promote water quality and environmental improvements in the Sacramento San Joaquin Delta. The Agency is working with DWR to incorporate the construction costs for this project on its State Water Project statement of charges.

It is important to recognize the potential desert aqueduct connection, the Delta Conveyance Project, the SWP contract extension and Sites Reservoir Project, as they will have a major financial impact on the Agency and its operations. Not only do the aqueduct connection, Delta conveyance project, SWP contract extension, and Sites Reservoir Project, constitute major financial transactions, but the potential financial obligations associated with the transactions are significant, thus impacting the financial statements and operations of the Agency.

Officers, Directors, and Senior Management

The officers, directors, and senior management of the Agency are listed below:

	<u>Term Expires</u>
Paul Ortega, President	December 2024
Jeff Bowman, Vice President	December 2026
Gerald McKenna, Secretary-Treasurer	December 2026
Kristin Bloomer, Director	December 2024
Steve Grasha, Director	December 2026
Mark S. Krause, General Manager	N/A



**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***

**To the Board of Directors
Desert Water Agency**

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 Desert Water Agency (the Agency), as of and for the year ended June 30, 2023 and June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 were not identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 financial statements. 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Glendale, California
December 14, 2023

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