

LAMONT PUBLIC UTILITY DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2023

**LAMONT PUBLIC UTILITY DISTRICT
JUNE 30, 2023**

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**LAMONT PUBLIC UTILITY DISTRICT
ORGANIZATION DATA
JUNE 30, 2023**

BOARD OF DIRECTORS

ELECTED OFFICERS

T. Javier Prado, President
Jesus Alonso, Vice-President
Roberto Gonzalez, Director
Miguel Sanchez, Director
Jose G. Cruz, Director

ADMINISTRATION

Scott Taylor, General Manager / Board Secretary
Eric Alvarez, Finance Manager

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lamont Public Utility District
Lamont, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Lamont Public Utility District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects of the District, as of June 30, 2023, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 District'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 opinions. 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America 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 District'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 District'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.


Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7, schedule of the District's proportionate share of the net pension liability on page 30, and schedule of contributions on page 31, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District'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 District's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
March 6, 2024

**LAMONT PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2023**

As management of the Lamont Public Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the District's basic financial statements, which will follow this section.

Using This Annual Report

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the District. The basic financial statements consist of a series of financial statements. The statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows provide information about the activities of the District. The basic financial statements also include various footnote disclosures, which further describe District activities. In addition, this annual report also provides required supplementary information (RSI), which is required by the Governmental Accounting Standards Board (GASB), and provides required information on the District's defined benefit pension plan.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statement of net position includes all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, as well as its profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash resulting from operations, investing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights, Fiscal Year Ended June 30, 2023

- The largest portion of the District's assets is its investment in capital assets. The District uses these assets to provide service and, consequently, these assets are not available to liquidate liabilities or other spending.
- Current assets as of June 30, 2023, include \$16,558,825 in cash and investments, maintained in commercial banks and the Local Agency Investment Fund.
- Operating revenues for the year ended June 30, 2023, consisted primarily of water and sewer service charges. Operating revenues increased slightly, mainly due to an increase in sewer and capacity and connection fees.

Condensed Statement of Net Position

	<u>2023</u>	<u>2022</u>	2023 vs 2022 Variance
Current and other assets	19,301,739	\$ 14,042,970	\$ 5,258,769
Capital assets, net	26,194,317	23,094,459	3,099,858
Deferred outflows of resources	159,211	243,222	(84,011)
 Total assets and deferred outflows of resources	 <u>\$ 45,655,267</u>	 <u>\$ 37,380,651</u>	 <u>\$ 8,274,616</u>
 Current liabilities	 927,522	 \$ 866,627	 \$ 60,895
Long-term liabilities	8,876,066	5,709,067	3,166,999
Deferred inflows of resources	2,379,383	2,488,215	(108,832)
 Total liabilities and deferred inflows of resources	 12,182,971	 9,063,909	 3,119,062
 Net position	 <u>33,472,296</u>	 <u>28,316,742</u>	 <u>5,155,554</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 45,655,267</u>	 <u>\$ 37,380,651</u>	 <u>\$ 8,274,616</u>

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

	<u>2023</u>	<u>2022</u>	2023 vs 2022 Variance
Operating revenues	\$ 6,210,706	\$ 5,955,689	\$ 255,017
Operating expenses	4,384,703	4,024,063	360,640
 Operating income	 <u>1,826,003</u>	 <u>1,931,626</u>	 <u>(105,623)</u>
 Nonoperating revenues (expenses)			
All other revenues	389,561	547,129	(157,568)
Interest expense	(126,033)	(117,370)	(8,663)
Miscellaneous	-	(16,811)	16,811
 Total nonoperating revenues (expenses)	 <u>263,528</u>	 <u>412,948</u>	 <u>(149,420)</u>
 Income after other revenues and expenses	 2,089,531	 2,344,574	 (255,043)
 Capital contributions - grants	 <u>3,052,259</u>	 <u>2,070,176</u>	 <u>982,083</u>
 Change in net position	 5,141,790	 4,414,750	 740,804
 Net position, beginning of the year	 <u>28,316,742</u>	 <u>23,901,992</u>	 <u>4,414,750</u>
 Prior period adjustment	 <u>13,764</u>	 <u>-</u>	 <u>13,764</u>
 Net position, beginning of the year, as restated	 <u>28,330,506</u>	 <u>23,901,992</u>	 <u>4,428,514</u>
 Net position, end of the year	 <u>\$ 33,472,296</u>	 <u>\$ 28,316,742</u>	 <u>\$ 5,169,318</u>

Capital Assets and Long-Term Debt

During the year ended June 30, 2023, the District's capital assets increased by \$3,099,858 net of accumulated depreciation. The major additions consisted primarily of construction in progress for well replacements and an increase to the water systems due to the addition of Smart Meters. Refer to Note 3 – Capital Assets for additional details.

The District's long-term debt includes Limited Obligation Improvement Bonds, Certificates of Participation funded by the Municipal Finance Corporation through Citizens Business Bank, a loan from the State of California Department of Public Health, a loan from the California Energy Commission, and compensated absences and net pension liability. During the year ended June 30, 2023, the District increased long-term debt by \$3,166,999 due to new debt issued. Refer to Note 4 – Long-Term Debt – Schedule of Changes for additional details.

Economic Factors

The local building economy has stabilized resulting in a consistent, though low, rate of new accounts. District operating revenues are flat due to the slow building industry. Plant and system expansion will continue to be monitored to serve any changes in growth.

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, or operating results in future periods.

Contacting the District's Financial Management

This financial report is designed to provide the Board of Directors, our customers, and creditors with a general overview of the District's accountability for the assets it receives and manages. If you have questions about this report or need additional information, please contact Scott Taylor, General Manager, at 8624 Segreue Road, Lamont, California 93241.

**LAMONT PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023**

	Water Operations	Sewer Operations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets			
Cash and investments (Note 2)	\$ 12,518,009	\$ 4,040,816	\$ 16,558,825
Receivables			
Accounts, net	48,176	27,406	75,582
Leases (Note 9)	-	70,738	70,738
Prepaid expenses	78,452	44,931	123,383
Total current assets	<u>12,644,637</u>	<u>4,183,891</u>	<u>16,828,528</u>
Noncurrent assets			
Capital assets - nondepreciable (Note 3)	5,259,587	628,157	5,887,744
Capital assets - depreciable, net (Note 3)	12,500,532	7,806,041	20,306,573
Other assets			
Refundable deposits	1,558	-	1,558
Leases receivable (Note 9)	-	2,471,653	2,471,653
Total other assets	17,761,677	10,905,851	28,667,528
Total assets	30,406,314	15,089,742	45,496,056
Deferred outflows of resources			
Pension outflows (Note 8)	108,386	50,825	159,211
Total assets and deferred outflows of resources	<u>\$ 30,514,700</u>	<u>\$ 15,140,567</u>	<u>\$ 45,655,267</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current liabilities			
Current maturities of long-term debt (Note 7)	\$ 368,353	\$ 189,848	\$ 558,201
Accounts payable	256,279	1,922	258,201
Accrued payroll	16,297	8,775	25,072
Deposits	-	476	476
Compensated absences	55,622	29,950	85,572
Total current liabilities	<u>696,551</u>	<u>230,971</u>	<u>927,522</u>
Long-term liabilities			
Net pension liability	30,004	14,449	44,453
Loan payable, less current maturities (Notes 6 and 7)	5,158,070	3,673,543	8,831,613
Total long-term liabilities	<u>5,188,074</u>	<u>3,687,992</u>	<u>8,876,066</u>
Total liabilities	5,884,625	3,918,963	9,803,588
Deferred inflows of resources			
Deferred lease proceeds (Note 9)	-	2,366,415	2,366,415
Pension inflows (Note 8)	8,429	4,539	12,968
Total deferred inflows of resources	<u>8,429</u>	<u>2,370,954</u>	<u>2,379,383</u>
Total liabilities and deferred inflows of resources	5,893,054	6,289,917	12,182,971
Net position			
Net investment in capital assets	12,233,696	4,570,807	16,804,503
Unrestricted	12,387,950	4,279,843	16,667,793
Total net position	<u>24,621,646</u>	<u>8,850,650</u>	<u>33,472,296</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 30,514,700</u>	<u>\$ 15,140,567</u>	<u>\$ 45,655,267</u>

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

**LAMONT PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023**

	Water Operations	Sewer Operations	Total
Operating revenues			
Water	\$ 4,086,228	\$ -	\$ 4,086,228
Sewer	-	1,955,053	1,955,053
Capacity and connection fees	28,250	600	28,850
Other (meter rents, deposit forfeiture, etc.)	22,254	118,321	140,575
Total operating revenues	<u>4,136,732</u>	<u>2,073,974</u>	<u>6,210,706</u>
Operating expenses			
General and administration	1,224,926	726,463	1,951,389
Power	794,806	48,792	843,598
Repairs and maintenance	263,585	81,656	345,241
Depreciation and amortization	731,435	438,533	1,169,968
Other (contract services, lab fees, chemicals, etc.)	72,131	2,376	74,507
Total operating expenses	<u>3,086,883</u>	<u>1,297,820</u>	<u>4,384,703</u>
Operating income	<u>1,049,849</u>	<u>776,154</u>	<u>1,826,003</u>
Nonoperating revenues and (expenses)			
Taxes and assessments	125,878	86,739	212,617
Interest income	123,938	53,006	176,944
Interest expense	(15,512)	(110,521)	(126,033)
Total nonoperating revenues and expenses	<u>234,304</u>	<u>29,224</u>	<u>263,528</u>
Income before capital contributions	1,284,153	805,378	2,089,531
Capital contributions			
Grants	<u>3,052,259</u>	<u>-</u>	<u>3,052,259</u>
Change in net position	4,336,412	805,378	5,141,790
Net position, beginning of the year	<u>20,276,211</u>	<u>8,040,531</u>	<u>28,316,742</u>
Prior period adjustment	<u>9,023</u>	<u>4,741</u>	<u>13,764</u>
Net position, beginning of year as restated	<u>20,285,234</u>	<u>8,045,272</u>	<u>28,330,506</u>
Net position, end of year	<u><u>\$ 24,621,646</u></u>	<u><u>\$ 8,850,650</u></u>	<u><u>\$ 33,472,296</u></u>

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

**LAMONT PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS – COMBINED TOTAL
FOR THE YEAR ENDED JUNE 30, 2023**

	2023
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 6,104,269
Payments to employees	(1,804,517)
Payments to suppliers for goods and services	(1,142,952)
Net cash provided by operating activities	3,156,800
CASH FLOWS FROM INVESTING ACTIVITIES:	
Rental and investment income received	176,944
Net cash provided by investing activities	176,944
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Issuance of long-term debt	3,662,000
Principal payments on long-term debt	(577,468)
Interest payments	(126,033)
Proceeds from property taxes and assessments	212,617
Capital purchases	-
Cash used for construction in progress	(4,269,826)
Capital grant income	3,052,259
Settlement and other nonoperating income	-
Net cash provided by capital financing activities	1,953,549
Net increase in cash and investments	5,287,293
Cash and investments at beginning of year	11,271,532
Cash and investments at end of year	\$ 16,558,825
RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating profit	\$ 1,826,003
Adjustments to reconcile operating profit to net cash provided by operating activities:	
Depreciation	1,169,968
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts and other receivables	(17,118)
Prepaid expenses	(14,387)
Customer deposits	-
Other assets	29,002
Deferred outflows of resources	84,011
Increase (decrease) in:	
Accounts payable	134,781
Deferred inflows of resources	(108,832)
Net pension liabilities	75,480
Payroll and compensated absences liabilities	(22,108)
Net cash provided by operating activities	\$ 3,156,800

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

**LAMONT PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lamont Public Utility District (the District) is a water and sewer agency operating under the applicable laws and regulations of a special district of the State of California. It is governed by a five-member Board of Directors (the Board) elected by registered voters of the District.

A summary of the District's significant accounting policies follows:

A. Reporting Entity

The District operates as an enterprise fund. An enterprise fund accounts for operations that are financed and operated similar to private business enterprises, where the intent is that the costs of providing services to customers on a continuing basis be financed or recovered primarily through user charges.

In July 2007, the Lamont Public Utility District Financing Authority (the Authority) was formed as a nonprofit benefit corporation under the Nonprofit Benefit Corporation Law of the State of California. The purpose of the Authority is to finance the acquisition and construction of capital improvements for the District. The Authority issues Certificates of Participation (COPs), a form of long-term debt, which the District uses to finance construction of such improvements.

The District and the Authority have a financial and operational relationship that meets the reporting entity's definition of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and applicable amendments including GASB Statement No. 61, for inclusion of the Authority as a component unit of the District. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as a part of the other.

Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue is recorded on the accrual basis of accounting when the exchange takes place. Contribution revenue is primarily recognized on a cost-reimbursement basis or in accordance with the terms of grant agreements. Expenses are recognized at the time they are incurred.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operational activities. Charges to customers represent the District's principal operating revenues and include water and sewer charges. Operating expenses include the cost of operating maintenance; support of providing water services, sewage collection, and disposal services; related capital assets; administrative expenses; and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating or other revenues and expenses.

D. Reclassifications

Certain amounts were reclassified within the statement of financial position to conform to the current year's presentation. These reclassifications had no effect on the District's net position. The reclassifications were made to better align the presentation of the financial statements with the District's operations and activities. These reclassifications have been made retrospectively and have been reflected in all periods presented.

E. Budget

Although a budget is adopted annually, it is used primarily as a guideline for the Board in regulating expenses. There is no legal requirement to stay within the adopted budget in the payment or classification of expenses.

F. Use of Estimates

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

G. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks and short-term, highly liquid investments with a maturity of three months or less, which includes money market funds. This definition of cash and cash equivalents is used in the statement of cash flows.

H. Deposits and Investments

All deposits and investments are made in Board-designated official depositories and are secured as required by State Law. Investment purchases and sales are recorded as of the trade date. Income is recognized when earned.

The District applies GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement generally requires that investments be reported at fair value and that all changes in fair value be reflected as income in the period in which they occur. The State of California Local Agency Investment Fund (LAIF) is stated at amortized cost, which approximates fair value.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

I. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Accounts receivable balances that are determined to be uncollectible, along with a general reserve, are included in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, the District believes the allowance for doubtful accounts as of June 30, 2023, is adequate. However, actual write-offs may exceed the recorded allowance. The allowance for doubtful accounts at June 30, 2023, was \$8,865.

J. Leases Receivable

The lease receivable is recognized at the commencement of the lease term. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The present value of the future lease payments to be received are discounted based on the interest rate the District charges the lessee. The District uses the interest rate identified in the contract as the discount rate. If no interest rate is specified, the District uses its implicit rate as the discount rate. The lease term includes the noncancelable period of the lease and extensions the District is reasonably certain to exercise. The District monitors changes in circumstances that are expected to significantly affect the amount of a lease receivable that may require a remeasurement of its lease.

K. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to a future accounting period and are recorded as prepaid expenses in the financial statements.

L. Capital Assets

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 - 40 years. Maintenance and repairs, which do not increase the useful lives of the assets, are charged to expense as incurred. Major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

M. Compensated Absences

The District accrues vested liabilities for vacation and sick time. Liabilities for vacation and sick leave are recorded when benefits are earned. A liability for these amounts is reported in the statement of net position.

N. Deferred Outflows of Resources and Deferred Inflows of Resources

The Statement of Net Position reports a separate section for deferred outflows of resources, defined as a consumption of net position that is applicable to a future funding period, and deferred inflows of resources, defined as an acquisition of net position that is applicable to a future period. The District reports deferred outflows of resources and deferred inflows of resources related to the District's defined benefit pension plan. More information regarding these items is detailed in a separate note disclosure - Note 8 – Pension Plan.

Additionally, the District reports deferred inflows of resources related to leases where the District is the lessor. These deferred inflows are measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. The inflows of resources (revenue) are recognized as inflows of resources in a systematic and rational manner over the term of the lease. More information regarding these items is detailed in a separate note disclosure – Note 9 – Leases.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

O. Defined Benefit Pension Plan

For purposes of measuring the defined benefit pension plan, deferred outflows of resources and deferred inflows of resources related to net pension liability, pension expense, information about the fiduciary net position of the pension plan has been determined on the same basis as they are reported by the plan, which is the accrual basis of accounting. Benefit payments are recorded in the period the related salaries are earned and become measurable. Investment income is recognized when it is earned.

P. Net Position

The basic financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents net position with external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the District, not restricted for any project or other purpose.

Q. Property Tax

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due and payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes for the District. Property taxes are recognized as revenue when they are levied.

R. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has been accrued based on previous year used and estimations.

S. Use of Estimates

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

T. New Accounting Pronouncements

During the year ended June 30, 2023, the District implemented the following GASB pronouncements:

GASB Statement No. 91 – Conduit Debt Obligations. The requirements of this statement are effective for fiscal years beginning after December 15, 2021, and all fiscal years thereafter. This statement did not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

T. New Accounting Pronouncements (Continued)

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. This statement did not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. This statement did not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

GASB Statement No. 99 – *Omnibus 2022*. The requirements of this statement are effective as follows:

- The requirements related to the extension of the use of the London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions of GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance.
- The requirements related to leases, public-private, and public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all fiscal years thereafter.

This statement does not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

U. Future Accounting Pronouncements

GASB Statement No. 100 – *Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62*. For fiscal years beginning after June 15, 2023, and all fiscal years thereafter. Earlier application is encouraged. The District has not fully judged the impact of implementation of this standard on the financial statements.

GASB Statement No. 101 – *Compensated Absences*. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all fiscal years thereafter. Earlier application is encouraged. The District has not fully judged the impact of implementation of this standard on the financial statements.

GASB Statement No. 102 - *Certain Risk Disclosures*. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged. The District has not fully judged the impact of implementation of this standard on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2023:

	<u>Water Operations</u>	<u>Sewer Operations</u>	<u>Total</u>
Deposits with financial institutions	\$ 8,332,540	\$ 3,310,415	\$ 11,642,955
Local Agency Investment Fund (LAIF)	<u>4,185,469</u>	<u>730,401</u>	<u>4,915,870</u>
Total	<u>\$ 12,518,009</u>	<u>\$ 4,040,816</u>	<u>\$ 16,558,825</u>

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the CalTrust Short-Term and Medium-Term joint investment pools and LAIF. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

The California State Treasurer's Office operates the LAIF. The LAIF is available for investment of funds administered by California local governments and special districts and is not registered with the Securities and Exchange Commission (SEC) as an investment company.

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

There are no limitations or restrictions on withdrawals and the LAIF authority does not impose liquidity fees or redemption gates.

Disclosures Relating to 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. The Weighted Average Maturity is not applicable to LAIF funds.

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. Standard & Poor's (S&P) has recently reconfirmed its "AAF" credit rating (as of the most recent available data) on the CalTrust Short-Term investment pool, citing "very strong protection against losses from credit defaults." In addition, S&P also has reiterated its "S1+" volatility rating on the CalTrust Short-Term investment pool, recognizing that the portfolio "possesses an extremely low sensitivity to changing market conditions." The CalTrust Medium-Term investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total investments consist of the amounts in LAIF.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does 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 entity). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

The District has the following recurring fair value measurements as of June 30, 2023:

Investments by Fair Value Level

LAIF at Amortized Cost \$ 4,915,870

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, is as follows:

Water Operations	Balance June 30, 2022	Additions	Deletions	Adjustments	Balance June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 247,559	\$ 57,303	\$ -	\$ -	\$ 304,862
Construction in progress	2,699,146	3,936,835	(90,337)	(1,590,919)	4,954,725
Total capital assets, not being depreciated	2,946,705	3,994,138	(90,337)	(1,590,919)	5,259,587
Depreciable capital assets:					
Water systems	13,582,422	462,173	-	339,641	14,384,236
Buildings and fixtures - Water	4,378,064	-	-	866,730	5,244,794
Vehicles	195,422	-	-	(58,626)	136,796
Software	-	-	-	164,343	164,343
Total depreciable capital assets	18,155,908	462,173	-	1,312,088	19,930,169
Less: accumulated depreciation	(6,725,972)	(731,435)	-	27,770	(7,429,637)
Total depreciable capital assets, net	11,429,936	(269,262)	-	1,339,858	12,500,532
Total capital assets, net	\$ 14,376,641	\$ 3,724,876	\$ (90,337)	\$ (251,061)	\$ 17,760,119

Depreciation expense for water operations was \$731,435 for the year ended June 30, 2023.

NOTE 3 – CAPITAL ASSETS (Continued)

Sewer Operations	Balance June 30, 2022	Additions	Deletions	Adjustments	Balance June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 576,951	\$ -	\$ -	\$ -	\$ 576,951
Construction in progress	622,449	57,789	(553)	(628,479)	51,206
Total capital assets, not being depreciated	1,199,400	57,789	(553)	(628,479)	628,157
Depreciable capital assets:					
Sewer systems	15,687,464	88,420	-	29,318	15,805,202
Buildings and fixtures - Sewer	1,939,433	-	-	449,025	2,388,458
Vehicles	13,349	-	-	45,278	58,627
Software	-	21,049	-	88,327	109,376
Total depreciable capital assets	17,640,246	109,469	-	611,948	18,361,663
Less: accumulated depreciation	(10,121,828)	(438,533)	-	4,739	(10,555,622)
Total depreciable capital assets, net	7,518,418	(329,064)	-	616,687	7,806,041
Total capital assets, net	<u>\$ 8,717,818</u>	<u>\$ (271,275)</u>	<u>\$ (553)</u>	<u>\$ (11,792)</u>	<u>\$ 8,434,198</u>

Depreciation expense for sewer operations was \$438,533 for the year ended June 30, 2023.

Combined	Balance June 30, 2022	Additions	Deletions	Adjustments	Balance June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 824,510	\$ 57,303	\$ -	\$ -	\$ 881,813
Construction in progress	3,321,595	3,994,624	(90,890)	(2,219,398)	5,005,931
Total capital assets, not being depreciated	4,146,105	4,051,927	(90,890)	(2,219,398)	5,887,744
Depreciable capital assets:					
Water systems	13,582,422	462,173	-	339,641	14,384,236
Sewer systems	15,687,464	88,420	-	29,318	15,805,202
Buildings and fixtures - Water	4,378,064	-	-	866,730	5,244,794
Buildings and fixtures - Sewer	1,939,433	-	-	449,025	2,388,458
Vehicles	208,771	-	-	(13,348)	195,423
Software	-	21,049	-	252,670	273,719
Total depreciable capital assets	35,796,154	571,642	-	1,924,036	38,291,832
Less: accumulated depreciation	(16,847,800)	(1,169,968)	-	32,509	(17,985,259)
Total depreciable capital assets, net	<u>\$ 18,948,354</u>	<u>\$ (598,326)</u>	<u>\$ -</u>	<u>\$ 1,956,545</u>	<u>\$ 20,306,573</u>
Total capital assets, net	<u>\$ 23,094,459</u>	<u>\$ 3,453,601</u>	<u>\$ (90,890)</u>	<u>\$ (262,853)</u>	<u>\$ 26,194,317</u>

Total depreciation expense was \$1,169,968 for the year ended June 30, 2023.

NOTE 4 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2023, is as follows:

	Balance June 30, 2022	Additions	Deductions	Balance June 30, 2023	Due Within One Year	Due After One Year
Certificates of Participation:						
2021 Installment Purchase Contract	\$ 3,697,000	\$ -	\$ (140,000)	\$ 3,557,000	\$ 144,000	\$ 3,413,000
Bonds:						
Limited obligation	166,500	-	(166,500)	-	-	-
2023 Installment Purchase	-	3,662,000	-	3,662,000	122,000	3,540,000
Loans Payable:						
State of California loan	487,390	-	(18,746)	468,644	37,491	431,153
California Energy Commission loan	1,954,392	-	(252,222)	1,702,170	254,710	1,447,460
Compensated absences	76,800	83,337	(74,565)	85,572	85,572	-
Net pension liability (asset)	(31,027)	75,480	-	44,453	-	44,453
	<u>\$ 6,351,055</u>	<u>\$ 3,820,817</u>	<u>\$ (652,033)</u>	<u>\$ 9,519,839</u>	<u>\$ 643,773</u>	<u>\$ 8,876,066</u>

NOTE 4 – LONG-TERM DEBT (Continued)

Certificates of Participation Refinancing

On May 1, 2008, the Authority issued Certificates of Participation (COP) in the amount of \$4,561,000 to provide funds for the improvement of the wastewater system. The interest rate is 4.125% and is payable on March 1 and September 1 of each year. On July 1, 2021, the Authority refinanced its outstanding COPs, with an outstanding balance of \$3,557,000, by issuing new long-term debt to Citizens Business Bank. The principal amount of the new debt issued is \$3,824,000. The new debt has a fixed interest rate of 2.85% and interest payments are due on November 1 and May 1 of each year. The maturity date for the new debt is November 1, 2041.

In order to proceed with this refinancing, the District entered into an Installment Purchase Contract with the Municipal Finance Corporation (Corporation) to refinance the 2007 COPs. The Corporation was formed to assist public agencies such as the District in financing facilities and property and was authorized to assist the District in the refinancing and financing, construction, acquisition, and improvement of the District's facilities and property.

<u>Debt</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Original Issue</u>	<u>Debt Outstanding June 30, 2022</u>	<u>Redeemed During Year</u>	<u>Debt Outstanding June 30, 2023</u>
Installment Purchase Contract 2021	2.850%	7/1/2021	3,824,000	3,697,000	140,000	3,557,000
			<u>\$ 3,824,000</u>	<u>\$ 3,697,000</u>	<u>\$ 140,000</u>	<u>\$ 3,557,000</u>

The installment purchase contract matures through 2041 as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 144,000	\$ 102,704	\$ 246,704
2025	148,000	98,638	246,638
2026	152,000	94,458	246,458
2027	156,000	90,164	246,164
2028	161,000	85,756	246,756
2029-2033	875,000	358,066	1,233,066
2034-2038	1,007,000	227,270	1,234,270
2039-2042	914,000	76,742	990,742
	<u>\$ 3,557,000</u>	<u>\$ 1,133,798</u>	<u>\$ 4,690,798</u>

Bonds

The 1998 Limited Obligation Improvement Bonds of \$2,615,174 were issued January 7, 1998, at 4.5% interest. The final maturity date was September 2023.

The 2023 Installment Purchase of \$3,662,000 was issued June 27, 2023, at 4.5% interest. The final maturity date is June 15, 2043.

<u>Bond</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Original Issue</u>	<u>Bonds Outstanding June 30, 2022</u>	<u>Redeemed During Year</u>	<u>Bonds Outstanding June 30, 2023</u>
Limited Obligation	4.5%	1/7/1998	\$ 2,615,174	\$ 166,500	\$ 166,500	\$ -
2023 Installment Purchase	4.5%	6/29/2023	3,662,000	-	-	3,662,000
			<u>\$ 6,277,174</u>	<u>\$ 166,500</u>	<u>\$ 166,500</u>	<u>\$ 3,662,000</u>

NOTE 4 – LONG-TERM DEBT (Continued)Bonds (Continued)

The installment purchase matures through 2043 as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 122,000	\$ 157,009	\$ 279,009
2025	121,000	157,950	278,950
2026	127,000	152,415	279,415
2027	133,000	146,633	279,633
2028	139,000	140,580	279,580
2029-2033	792,000	602,483	1,394,483
2034-2038	991,000	404,933	1,395,933
2039-2043	1,237,000	158,063	1,395,063
	<u>\$ 3,662,000</u>	<u>\$ 1,920,066</u>	<u>\$ 5,582,066</u>

Loans Payable

The District has a funding agreement with the State of California Department of Public Health for the construction of a well. Pursuant to the Safe Drinking Water State Revolving Fund Law of 1997, the State has loaned the District \$749,828. The loan provides for interest at the rate of zero percent and requires semi-annual payments of principal on January 1 and July 1 of each year commencing December 2015. All unpaid principal is due and payable twenty years from the due date of the first payment.

Pursuant to the funding agreement, the District is required to have a fiscal services agreement with a Fiscal Agent, and maintain a separate deposit account with the Fiscal Agent in which the District must maintain sufficient funds to service the semi-annual loan payments.

The annual requirements to amortize the note outstanding at June 30, 2023, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Total</u>
2024	\$ 37,491	\$ 37,491
2025	37,491	37,491
2026	37,491	37,491
2027	37,491	37,491
2028	37,491	37,491
2029-2033	187,460	187,460
2034-2035	93,729	93,729
	<u>\$ 468,644</u>	<u>\$ 468,644</u>

The District has a funding agreement with the California Energy Commission for the construction of an energy savings project to be installed at the wastewater treatment plant in the City of Lamont, California. The total loan amount available to the District is \$2,900,767. The balance at June 30, 2023, was \$1,702,170. The loan provides for interest at the rate of one percent and requires semi-annual payments of principal on June 22 and December 22 of each year commencing December 2018, until principal and interest shall be paid in full.

NOTE 4 – LONG-TERM DEBT (Continued)Loans Payable (Continued)

The annual requirements to amortize the note outstanding at June 30, 2023, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 254,710	\$ 16,431	\$ 271,141
2025	257,306	13,835	271,141
2026	259,885	11,255	271,140
2027	262,490	8,650	271,140
2028	265,107	6,033	271,140
2029-2030	402,672	4,037	406,709
	<u>\$ 1,702,170</u>	<u>\$ 60,241</u>	<u>\$ 1,762,411</u>

NOTE 5 – PENSION PLANGeneral Information About the Pension Plan***Plan Description***

All qualified employees are eligible to participate in the District's Miscellaneous Plan (the Plan), which is a public agency cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). CalPERS acts as the common investment and administrative agency for the Plan. The CalPERS Plan consists of a miscellaneous pool (referred to as a "risk pool"), which is comprised of individual employer miscellaneous plans. The District benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement, death, disability benefits, and annual cost of living adjustments (COLA) to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Public Employees' Pension Reform Act (PEPRA) Members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The COLAs for each plan are applied as specified by the California Public Employees' Retirement Law. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report is a publicly available valuation report that can be obtained at the CalPERS website.

Employees Covered

At June 30, 2023, the following District employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	5
Inactive Employees Entitled to but not yet Receiving Benefits	8
Active Employees	<u>17</u>
Total	<u><u>30</u></u>

NOTE 5 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Allocation of Pension Amounts to Individual Employers

The allocation method used to derive each employer's proportionate share of the net pension liability/(asset) (NPL/NPA), deferred outflows of resources, deferred inflows of resources, and pension expense/(credit) excluding employer-paid member contributions included in the schedule is consistent with GASB Statement No. 68, paragraph 49. As described in CalPERS' audited financial statements, for accounting purposes, the Plan is a legal separate entity within the Public Employees' Retirement Fund (PERF), also referred to as PERF C. In determining an employer's proportionate share, the employer rate plans included in PERF C were assigned to either the Miscellaneous or Safety risk pool. The methodology described herein applies to only public agency employers participating in either of these risk pools.

Paragraph 49 of GASB Statement No. 68 indicates that, to the extent different contribution rates are assessed based on separate relationships that constitute the collective NPL, the determination of the employer's proportionate share of the collective NPL should be made in a manner that reflects those relationships. The allocation method utilized by CalPERS to determine the employer's proportionate share reflects these relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

CalPERS' actuaries prepare GASB Statement No. 68 Accounting Valuation Reports by employer rate plan. Allocated pension amounts by employer reported in the schedule represent the sum of the employer rate plans' proportionate shares of pension amounts, which are derived as follows:

Total CalPERS pension liability	\$ 21,449,898,398
Less: Plan fiduciary net position	<u>16,770,671,339</u>
Net pension liability of employers	<u>\$ 4,679,227,059</u>

The NPA of the District was \$44,453 at June 30, 2023.

Net Pension Liability (Asset)

In determining an individual employer rate plan's proportionate share of the NPL, estimates of the total pension liability (TPL) and the fiduciary net position (FNP) are first determined for the individual rate plans and the risk pool as a whole as of June 30, 2021 (Valuation Date).

The risk pool's FNP is subtracted from the risk pool's TPL to determine the risk pool's NPL at the Valuation Date (NPL = TPL – FNP).

Using standard actuarial roll forward methods, the risk pool's TPL is computed at the Measurement Date. The FNP for the risk pool is determined by CalPERS' Financial Office at the Measurement Date. By subtracting the FNP from the TPL, the NPL for the risk pool is computed at June 30, 2022 (Measurement Date).

The individual employer rate plan's share of the TPL, FNP, and NPL are calculated at the Valuation Date. Using the individual employer rate plan's share of the risk pool TPL and FNP at the Valuation Date, the proportionate shares of risk pool TPL and FNP at the Measurement Date are determined for each employer rate plan (i.e., individual employer rate plan TPL = (employer rate plan TPL at Valuation Date/risk pool TPL at Valuation Date) * risk pool TPL at Measurement Date).

NOTE 5 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Net Pension Liability (Asset) (Continued)

The allocated FNP, the FNP at the Measurement Date that is allocated as described in the preceding paragraph, excludes all additional side fund or additional unfunded liability contributions made by all employers during the measurement period. The additional side fund contributions are added to the individual employer's allocated FNP to get the rate plan's FNP at the Measurement Date.

Allocated employer contributions for each individual rate plan are based on an allocation of the risk pool contributions (excluding additional side fund contributions) using the individual rate plan's proportion of allocated FNP, plus any additional side fund contributions made by the employer for that rate plan. Allocations exclude employer-paid member contributions.

Changes in Proportion

Deferred outflows of resources and deferred inflows of resources include the changes in proportions that result from CalPERS' allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS' method applies different employer proportions to various pension-related items such as FNP and TPL. This adjustment reconciles the differences in proportions for these various items with the rate plan's change in NPL during the measurement period.

Deferred outflows of resources and deferred inflows of resources relating to changes in proportions are amortized as a component of pension expense over the expected average remaining service lifetime of the membership of the plan as a whole as of the Valuation Date, with the first portion recognized in pension expense in the year measured. The remaining balance will be recognized in pension expense in future periods.

NOTE 5 – PENSION PLAN (Continued)General Information About the Pension Plan (Continued)**Changes in Proportion** (Continued)

As of June 30, 2023, the District reported other amounts for the Plan as deferred outflows of resources and deferred inflows of resources related to pensions as follows:

Water Operations	Deferred Outflows of Resources Water	Deferred Inflows of Resources Water
Pension Contributions Subsequent to Measurement Date	\$ 37,109	\$ -
Differences between Actual and Expected Experience	210	-
Changes in Assumptions	3,248	-
Net Differences between Projected and Actual Earnings on Plan Investments	5,814	-
Differences between Employer's Contributions and Proportionate Share of Contributions	62,005	-
Changes in Employer's Proportion	-	8,429
Total	\$ 108,386	\$ 8,429
Sewer Operations	Deferred Outflows of Resources Sewer	Deferred Inflows of Resources Sewer
Pension Contributions Subsequent to Measurement Date	\$ 22,268	\$ -
Differences between Actual and Expected Experience	84	-
Changes in Assumptions	1,307	-
Net Differences between Projected and Actual Earnings on Plan Investments	-	-
	2,329	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	-
	24,837	-
Changes in Employer's Proportion	-	4,539
Total	\$ 50,825	\$ 4,539
Combined Total	Deferred Outflows of Resources Total	Deferred Inflows of Resources Total
Pension Contributions Subsequent to Measurement Date	\$ 59,377	\$ -
Differences between Actual and Expected Experience	294	-
Changes in Assumptions	4,555	-
Net Differences between Projected and Actual Earnings on Plan Investments	8,143	-
Differences between Employer's Contributions and Proportionate Share of Contributions	86,842	-
Changes in Employer's Proportion	-	12,968
Total	\$ 159,211	\$ 12,968

NOTE 5 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Net Differences Between Projected and Actual Earnings on Plan Investments

The difference between projected and actual earnings on the risk pool's pension investments is determined using the difference between the assumed investment return (using actual asset outflows and inflows) and actual earnings of the risk pool. The employer rate plan's proportional amount of this difference is based on its portion of the risk pool's FNP determined as of the Valuation Date.

Deferred outflows of resources and deferred inflows of resources relating to the net difference between projected and actual earnings on plan investments are recognized in pension expense over a fixed 5-year period, with the first portion recognized in pension expense in the year measured. The remaining balance will be recognized in pension expense in the next four periods.

The deferred outflows of resources in the amount of \$59,377 related to pensions resulting from the District contributions subsequent to the actuary measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2024.

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

Measurement Period Ended June 30	Amount
2024	\$ 41,673
2025	28,122
2026	12,090
2027	4,981
Total	<u>\$ 86,866</u>

Allocation of Pension Expense/(Credit) Excluding Employer-Paid Member Contributions

Service Cost

The rate plan's service cost is based on the risk pool's net service cost rate plus the employer rate plan's service cost surcharges calculated using output from the Actuarial Valuation System. This service cost rate, including surcharges, is applied to the employer's covered payroll (pensionable salaries) as of the Valuation Date and rolled forward to the Measurement Date using the risk pool's payroll growth assumption. The total amount is recognized immediately.

Interest on the Total Pension Liability

Interest on the TPL includes a full year's interest on the risk pool's TPL at the Valuation Date and a half year's interest on the risk pool's service cost and actual benefit payments. The employer rate plan's portion of this amount is based on the employer rate plan's proportion of the risk pool's TPL determined as of the valuation date. The amount is recognized immediately in pension expense.

Employee Contributions

Actual employee contributions made during the measurement period are immediately recognized in pension expense. Each employer rate plan receives an allocation of any contributions made by employees participating in new rate plans that were not included in the June 30, 2021 funding valuation. This allocation is based on each existing employer rate plan's proportion of the risk pool's total employee contributions (excluding employee contributions for the new rate plans).

NOTE 5 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Employee Contributions (Continued)

Also refer to the CalPERS Public Agency Cost-Sharing Allocation Methodology Report that can be obtained at CalPERS' website under the GASB Statement No. 68 section for more details.

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION

Additional financial and actuarial information required for GASB Statement No. 68 disclosures is located in CalPERS' Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023, which can be found on CalPERS' website, and the CalPERS' GASB Statement No. 68 Actuarial Valuation Report for the respective employer rate plan, which is available upon request from CalPERS.

The District's NPA is measured as the TPL, less the Plan's FNP. The NPL of the Plan is measured as of June 30, 2023, using an annual actuarial valuation as of June 30, 2022, rolled forward to June 30, 2023, using standard update procedures. A summary of principal assumptions and methods used to determine the NPL is shown below.

Actuarial Assumptions – The TPLs in the June 30, 2021 and the June 30, 2022 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service ⁽¹⁾
Mortality	Derived using CalPERS' Membership Data for all Funds ⁽²⁾

⁽¹⁾ Depending on age, service, and type of employment.

⁽²⁾ The mortality table used was developed based on CalPERS' specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2021 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 6.90%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the PERF. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE 5 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher TPL and NPL CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS completed its most recent Asset Liability Management (ALM) review cycle in November 2021 and adopted new actuarial assumptions but did not have any changes to the current discount rate.

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

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

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 ^(1, 2)</u>
Global equity - cap-weighted	30.00%	4.45%
Global equity non-cap-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	<u>-5.00%</u>	-0.59%
Total	<u>100.00%</u>	

(1) An expected inflation of 2.30% used for this period.

(2) Figures are based on the 2021-22 Asset Liability Management study.

NOTE 5 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION (Continued)

Sensitivity of the Proportionate Share of the NPL to Changes in the Discount Rate The following presents the District's proportionate share of the NPA for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the NPA would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease (5.90%) Net Pension Liability	\$ 190,653
Current Discount Rate (6.90%) Net Pension Liability (Asset)	\$ 44,453
1% Increase (7.90%) Net Pension Liability (Asset)	\$ (75,834)

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

NOTE 6 – LEASES

The District leases out a real property to a lessee who operates a compost facility on the property. The lease agreement was initially measured on July 1, 2021 using a discount rate of 1.5%. The lease is set to expire on June 30, 2043 and includes annual increases of 3%. During the fiscal year ending June 30, 2023, the District recognized \$118,321 in lease revenue and \$38,385 in interest income related to this agreement. At June 30, 2023, the District recorded a lease receivable balance of \$2,542,391 for this arrangement. Additionally, the District has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of deferred inflows of resources was \$2,366,415.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

The net assets of the District were restated as follows:

Water Fund Net Assets, as Previously Reported	\$ 20,276,211
Prior Period Adjustment To adjust expenses for vendor credits	<u>9,023</u>
July 1, 2022 Net Assets, as Restated	<u>\$ 20,285,234</u>
Sewer Fund Net Assets, as Previously Reported	\$ 8,040,531
Prior Period Adjustment To adjust expenses for vendor credits	<u>4,741</u>
July 1, 2022 Net Assets, as Restated	<u>\$ 8,045,272</u>

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 6, 2024, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**LAMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2023
LAST 10 YEARS***

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
District's Proportion of the Net Pension Liability	0.00258%	0.00336%	0.00173%	0.00127%	0.00088%
District's Proportionate Share of the Net Pension (Asset) Liability	\$ 44,453	\$ (31,027)	\$ 72,929	\$ 50,680	\$ 33,137
Covered Payroll	\$ 682,345	\$ 705,580	\$ 757,940	\$ 743,760	\$ 698,534
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	6.51%	-4.40%	9.62%	6.81%	4.74%
Plan's Fiduciary Net Position	\$ 16,770,671,339	\$ 18,065,791,524	\$ 14,702,361,183	\$ 13,979,687,268	\$ 13,122,440,092
Plan's Total Pension Liability	\$ 21,449,898,398	\$ 19,964,594,105	\$ 18,920,437,526	\$ 17,984,188,264	\$ 16,891,153,209
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.19%	90.49%	77.71%	77.73%	77.69%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
District's Proportion of the Net Pension Liability	0.00092%	0.00064%	-0.00046%	0.00006%	
District's Proportionate Share of the Net Pension Liability	\$ 36,276	\$ 22,182	\$ 22,182	\$ 3,472	
Covered Payroll	\$ 662,234	\$ 651,091	\$ 688,350	\$ 712,962	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	5.48%	3.41%	3.22%	0.49%	
Plan's Fiduciary Net Position	\$ 12,074,499,781	\$ 10,923,476,287	\$ 10,923,476,287	\$ 10,896,036,068	
Plan's Total Pension Liability	\$ 16,016,547,402	\$ 14,397,353,530	\$ 14,397,353,530	\$ 13,639,503,084	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.39%	75.87%	75.87%	79.89%	

* This is a 10 year schedule. Information in this schedule is not available prior to 2015. Additional years will be added to this schedule in future fiscal years until 10 years of data is presented.

See accompanying notes to required supplementary information.

**LAMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2023
LAST 10 YEARS***

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually Required Contribution (Actuarially Determined)	\$ 149,332	\$ 60,742	\$ 54,162	\$ 46,581	\$ 34,236
Contributions in Relation to the Actuarially Determined Contributions	<u>149,332</u>	<u>60,742</u>	<u>54,162</u>	<u>46,581</u>	<u>34,236</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 682,345	\$ 705,580	\$ 757,940	\$ 743,760	\$ 698,534
Contributions as a Percentage of Covered Payroll	21.89%	8.61%	7.15%	6.26%	4.90%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Contractually Required Contribution (Actuarially Determined)	\$ 31,441	\$ 26,933	\$ 26,933	\$ 15,841	
Contributions in Relation to the Actuarially Determined Contributions	<u>31,441</u>	<u>26,933</u>	<u>26,933</u>	<u>15,841</u>	
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered Payroll	\$ 662,234	\$ 651,091	\$ 688,350	\$ 712,962	
Contributions as a Percentage of Covered Payroll	4.75%	4.14%	3.91%	2.22%	

* This is a 10 year schedule. Information in this schedule is not available prior to 2015. Additional years will be added to this schedule in future fiscal years until 10 years of data is presented.

**LAMONT PUBLIC UTILITY DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2023**

A. Proportionate Share of the Net Pension Liability

Change in Benefit Terms

The District can make changes to the plan provisions and such changes occur on an ongoing basis. There were no changes to the benefit terms during the year.

Change of Assumptions and Methods

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

In fiscal year 2018-19, CalPERS implemented a new actuarial valuation software system for the June 30, 2018, valuation. This new system has refined and improved calculation methodology.

In December 2017, the Board adopted new mortality assumptions. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption was reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increases and overall payroll growth were reduced from 3.00 percent to 2.75 percent. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. For financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2017-18.

In fiscal year 2016-17, the financial reporting discount rate was lowered from 7.65 percent to 7.15 percent. In December 2016, the Board approved lowering the funding discount rate from 7.50 percent to 7.00 percent, which is to be phased in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period and remained adjusted for administrative expenses.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lamont Public Utility District
Lamont, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Lamont Public Utility District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 6, 2024.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
March 6, 2024