

LAMONT PUBLIC UTILITY DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022

**LAMONT PUBLIC UTILITY DISTRICT
JUNE 30, 2022**

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**LAMONT PUBLIC UTILITY DISTRICT
ORGANIZATION DATA
JUNE 30, 2022**

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, 2022, 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, 2022, 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.

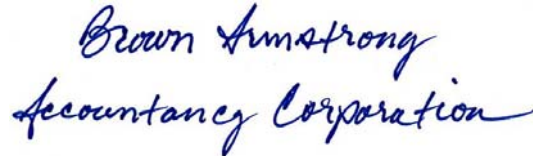
Required Supplementary Information

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 29, and schedule of contributions on pages 30, 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 February 1, 2023, 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
February 1, 2023

**LAMONT PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2022**

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, 2022. 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, 2022

- 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, 2022, include \$11,271,532 in cash and investments, maintained in commercial banks and the Local Agency Investment Fund.
- Operating revenues for the year ended June 30, 2022, 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>2022</u> | <u>2021</u> | <u>2022 vs 2021 Variance</u> |
|---|----------------------|----------------------|----------------------------------|
| Current and other assets | \$ 14,042,970 | \$ 8,445,200 | \$ 5,597,770 |
| Capital assets, net | 23,094,459 | 22,513,752 | 580,707 |
| Deferred outflows of resources | <u>243,222</u> | <u>123,541</u> | <u>119,681</u> |
| Total assets and deferred outflows of resources | <u>\$ 37,380,651</u> | <u>\$ 31,082,493</u> | <u>\$ 6,298,158</u> |
| Current liabilities | \$ 866,627 | \$ 799,770 | \$ 66,857 |
| Long-term liabilities | 5,709,067 | 6,380,211 | (671,144) |
| Deferred inflows of resources | <u>2,488,215</u> | <u>520</u> | <u>2,487,695</u> |
| Total liabilities and deferred inflows of resources | 9,063,909 | 7,180,501 | 1,883,408 |
| Net position | <u>28,316,742</u> | <u>23,901,992</u> | <u>4,414,750</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 37,380,651</u> | <u>\$ 31,082,493</u> | <u>\$ 6,298,158</u> |

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

| | <u>2022</u> | <u>2021</u> | <u>2022 vs 2021 Variance</u> |
|---|----------------------|----------------------|----------------------------------|
| Operating revenues | \$ 5,942,643 | \$ 5,312,510 | \$ 630,133 |
| Operating expenses | <u>4,024,063</u> | <u>4,236,854</u> | <u>(212,791)</u> |
| Operating income | <u>1,918,580</u> | <u>1,075,656</u> | <u>842,924</u> |
| Nonoperating revenues (expenses) | | | |
| Rents and leases | 13,046 | 55,850 | (42,804) |
| All other revenues | 547,129 | 416,919 | 130,210 |
| Interest expense | (117,370) | (179,151) | 61,781 |
| Miscellaneous | <u>(16,811)</u> | <u>-</u> | <u>(16,811)</u> |
| Total nonoperating revenues (expenses) | <u>425,994</u> | <u>293,618</u> | <u>132,376</u> |
| Income after other revenues and expenses | 2,344,574 | 1,369,274 | 975,300 |
| Capital contributions - grants | <u>2,070,176</u> | <u>394,195</u> | <u>1,675,981</u> |
| Change in net position | 4,414,750 | 1,763,469 | 2,651,281 |
| Net position, beginning of the year, as restated | <u>23,901,992</u> | <u>22,138,523</u> | <u>1,763,469</u> |
| Net position, end of the year | <u>\$ 28,316,742</u> | <u>\$ 23,901,992</u> | <u>\$ 4,414,750</u> |

Capital Assets and Long-Term Debt

During the year ended June 30, 2022, the District's capital assets increased by \$580,707 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, 2022, the District reduced debt by \$604,287 from normal scheduled payments. Refer to Note 7 – 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 Segrue Road, Lamont, California 93241.

**LAMONT PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022**

| | Water Operations | Sewer Operations | Total |
|---|----------------------|----------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| Current assets | | | |
| Cash and investments (Note 2) | \$ 7,891,300 | \$ 3,380,232 | \$ 11,271,532 |
| Receivables | | | |
| Accounts, net | 32,285 | 26,179 | 58,464 |
| Leases (Note 9) | - | 2,572,951 | 2,572,951 |
| Prepaid expenses | 69,100 | 39,896 | 108,996 |
| Total current assets | <u>7,992,685</u> | <u>6,019,258</u> | <u>14,011,943</u> |
| Noncurrent assets | | | |
| Capital Assets, not being depreciated (Note 3) | 2,946,705 | 1,199,400 | 4,146,105 |
| Capital Assets, net of accumulated depreciation (Note 3) | 11,429,936 | 7,518,418 | 18,948,354 |
| Net pension asset | 19,058 | 11,969 | 31,027 |
| Total assets | <u>22,388,384</u> | <u>14,749,045</u> | <u>37,137,429</u> |
| Deferred outflows of resources | | | |
| Pension outflows (Note 8) | 162,993 | 80,229 | 243,222 |
| Total assets and deferred outflows of resources | <u>\$ 22,551,377</u> | <u>\$ 14,829,274</u> | <u>\$ 37,380,651</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | |
| Current liabilities | | | |
| Current maturities of long-term debt (Note 7) | \$ 244,315 | \$ 351,900 | \$ 596,215 |
| Accounts payable | 96,623 | 40,561 | 137,184 |
| Accrued payroll | 36,371 | 19,581 | 55,952 |
| Deposits | - | 476 | 476 |
| Compensated absences | 49,920 | 26,880 | 76,800 |
| Total current liabilities | <u>427,229</u> | <u>439,398</u> | <u>866,627</u> |
| Long-term liabilities | | | |
| Loan payable, less current maturities (Notes 6 and 7) | 1,845,676 | 3,863,391 | 5,709,067 |
| Total long-term liabilities | <u>1,845,676</u> | <u>3,863,391</u> | <u>5,709,067</u> |
| Total liabilities | <u>2,272,905</u> | <u>4,302,789</u> | <u>6,575,694</u> |
| Deferred inflows of resources | | | |
| Deferred lease proceeds (Note 9) | - | 2,484,736 | 2,484,736 |
| Pension inflows (Note 8) | 2,261 | 1,218 | 3,479 |
| Total deferred inflows of resources | <u>2,261</u> | <u>2,485,954</u> | <u>2,488,215</u> |
| Total liabilities and deferred inflows of resources | <u>2,275,166</u> | <u>6,788,743</u> | <u>9,063,909</u> |
| Net position | | | |
| Net investment in capital assets | 12,286,648 | 4,502,527 | 16,789,175 |
| Unrestricted | 7,989,563 | 3,538,004 | 11,527,567 |
| Total net position | <u>20,276,211</u> | <u>8,040,531</u> | <u>28,316,742</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 22,551,377</u> | <u>\$ 14,829,274</u> | <u>\$ 37,380,651</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, 2022**

| | Water Operations | Sewer Operations | Total |
|--|----------------------|---------------------|----------------------|
| Operating revenues | | | |
| Water | \$ 3,986,343 | \$ - | \$ 3,986,343 |
| Sewer | - | 1,878,511 | 1,878,511 |
| Capacity and connection fees | 26,875 | 19,775 | 46,650 |
| Other (meter rents, deposit forfeiture, etc.) | 30,507 | 632 | 31,139 |
| Total operating revenues | <u>4,043,725</u> | <u>1,898,918</u> | <u>5,942,643</u> |
| Operating expenses | | | |
| General and administration | 979,253 | 616,747 | 1,596,000 |
| Power | 636,723 | 49,328 | 686,051 |
| Repairs and maintenance | 238,771 | 63,702 | 302,473 |
| Depreciation | 659,813 | 743,175 | 1,402,988 |
| Other (contract services, lab fees, chemicals, etc.) | 33,051 | 3,500 | 36,551 |
| Total operating expenses | <u>2,547,611</u> | <u>1,476,452</u> | <u>4,024,063</u> |
| Operating income | <u>1,496,114</u> | <u>422,466</u> | <u>1,918,580</u> |
| Nonoperating revenues and (expenses) | | | |
| Taxes and assessments | 115,992 | 251,644 | 367,636 |
| Rents and leases | 450 | 12,596 | 13,046 |
| Interest income | 19,431 | 41,741 | 61,172 |
| Interest expense | (17,565) | (99,805) | (117,370) |
| Other revenue | - | 118,321 | 118,321 |
| Miscellaneous | (16,811) | - | (16,811) |
| Total nonoperating revenues and expenses | <u>101,497</u> | <u>324,497</u> | <u>425,994</u> |
| Income before capital contributions | 1,597,611 | 746,963 | 2,344,574 |
| Capital contributions | | | |
| Grants | <u>2,070,176</u> | <u>-</u> | <u>2,070,176</u> |
| Change in net position | 3,667,787 | 746,963 | 4,414,750 |
| Net position, beginning of the year | <u>16,608,424</u> | <u>7,293,568</u> | <u>23,901,992</u> |
| Net position, end of year | <u>\$ 20,276,211</u> | <u>\$ 8,040,531</u> | <u>\$ 28,316,742</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, 2022**

| | 2022 |
|--|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Receipts from customers | \$ 5,872,836 |
| Payments to employees | (1,818,051) |
| Payments to suppliers for goods and services | (1,008,748) |
| Net cash provided by operating activities | 3,046,037 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Rental and investment income received | 43,898 |
| Net cash provided by investing activities | 43,898 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | |
| Principal payments on long-term debt | (527,711) |
| Interest payments | 951 |
| Proceeds from property taxes and assessments | 367,636 |
| Capital purchases | (473,430) |
| Cash used for construction in progress | (1,144,760) |
| Capital grant income | 2,070,176 |
| Settlement and other nonoperating income | (16,811) |
| Net cash provided by capital financing activities | 276,051 |
| Net increase in cash and investments | 3,365,986 |
| Cash and investments at beginning of year | 7,905,546 |
| Cash and investments at end of year | \$ 11,271,532 |
| RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating profit | \$ 1,918,580 |
| Adjustments to reconcile operating profit to net cash provided by operating activities: | |
| Depreciation | 1,402,988 |
| Changes in assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts and other receivables | (2,555,049) |
| Prepaid expenses | (11,719) |
| Customer deposits | - |
| Other assets | 506 |
| Deferred outflows of resources | (119,681) |
| Increase (decrease) in: | |
| Accounts payable | 28,046 |
| Deferred inflows of resources | 2,487,695 |
| Net pension liabilities | (103,956) |
| Payroll and compensated absences liabilities | (1,373) |
| Net cash provided by operating activities | \$ 3,046,037 |
| Non-Cash Investing, Capital, and Financing Activities | |
| Lease proceeds - deferred inflows of resources | \$ 2,484,736 |

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

**LAMONT PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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.

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

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

I. Accounts Receivable and Allowance for Doubtful Accounts (Continued)

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, 2022, is adequate. However, actual write-offs may exceed the recorded allowance. The allowance for doubtful accounts at June 30, 2022 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.

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

T. New Accounting Pronouncements (Continued)

During the year ended June 30, 2022, the District implemented the following GASB pronouncements:

GASB Statement No. 87 – Leases. The requirements of this statement are effective for fiscal years beginning after June 15, 2021, and all fiscal years thereafter. The District has implemented this statement and the provisions are contained within the financial statements.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this statement are effective for fiscal years beginning after December 15, 2020. 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. 92 – Omnibus 2020. The requirements of this statement are effective as follows:

- The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of GASB Statements No. 73 and No. 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of GASB Statement No. 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in fiscal years beginning after June 15, 2021.

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

GASB Statement No. 93 – Replacement of Interbank Offered Rates. The requirements of this statement, except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. The requirement in paragraph 11b is effective for fiscal years ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 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.

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32. The requirements of this statement are effective as follows:

- The requirements in (1) paragraph 4 of this statement as it applies to defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans and (2) paragraph 5 of this statement are effective immediately.
- The requirements in paragraphs 6–9 of this statement is effective for fiscal years beginning after June 15, 2021.

This statement does 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)

U. Future Accounting Pronouncements

GASB Statement No. 91 – Conduit Debt Obligations. The requirements of this statement are effective for fiscal years beginning after December 15, 2021. Earlier application is encouraged. The District has not fully judged the impact of implementation of this standard on the financial statements.

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, and all fiscal years thereafter. The District has not fully judged the impact of implementation of this standard on the financial statements.

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. The District has not fully judged the impact of implementation of this standard on the financial statements.

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

- The requirements related to 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 in 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.

Earlier application is encouraged. The District has not fully judged the impact of implementation of this standard on the financial statements.

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. 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. 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, 2022:

| | <u>Water Operations</u> | <u>Sewer Operations</u> | <u>Total</u> |
|--------------------------------------|-----------------------------|-----------------------------|----------------------|
| Deposits with financial institutions | \$ 3,803,681 | \$ 2,664,453 | \$ 6,468,134 |
| Local Agency Investment Fund (LAIF) | <u>4,087,619</u> | <u>715,779</u> | <u>4,803,398</u> |
| Total | <u>\$ 7,891,300</u> | <u>\$ 3,380,232</u> | <u>\$ 11,271,532</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, 2022:

Investments by Fair Value Level

LAIF at Amortized Cost \$ 4,803,398

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, is as follows:

| Water Operations | Balance June 30, 2021 | Additions | Deletions | Adjustments | Balance June 30, 2022 |
|---|--------------------------|-------------------|-------------|-------------------|--------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 247,559 | \$ - | \$ - | \$ - | \$ 247,559 |
| Construction in progress | 1,226,571 | 1,107,070 | - | 365,505 | 2,699,146 |
| Total capital assets, not being depreciated | 1,474,130 | 1,107,070 | - | 365,505 | 2,946,705 |
| Depreciable capital assets: | | | | | |
| Water systems | 13,282,361 | 300,061 | - | - | 13,582,422 |
| Buildings and fixtures - Water | 4,262,519 | 115,545 | - | - | 4,378,064 |
| Vehicles | 195,422 | - | - | - | 195,422 |
| Total depreciable capital assets | 17,740,302 | 415,606 | - | - | 18,155,908 |
| Less: accumulated depreciation | 6,066,159 | 659,813 | - | - | 6,725,972 |
| Total depreciable capital assets, net | 11,674,143 | (244,207) | - | - | 11,429,936 |
| Total capital assets, net | <u>\$ 13,148,273</u> | <u>\$ 862,863</u> | <u>\$ -</u> | <u>\$ 365,505</u> | <u>\$ 14,376,641</u> |

Depreciation expense for water operations was \$659,813 at June 30, 2022.

NOTE 3 – CAPITAL ASSETS (Continued)

| Sewer Operations | Balance June 30, 2021 | Additions | Deletions | Adjustments | Balance June 30, 2022 |
|--|--------------------------|---------------------|-------------|-------------|--------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 576,951 | \$ - | \$ - | \$ - | \$ 576,951 |
| Construction in progress | 584,759 | 37,690 | - | - | 622,449 |
| Total capital assets, not being depreciated | 1,161,710 | 37,690 | - | - | 1,199,400 |
| Depreciable capital assets: | | | | | |
| Sewer systems | 15,687,464 | - | - | - | 15,687,464 |
| Buildings and fixtures - Sewer | 1,881,609 | 57,824 | - | - | 1,939,433 |
| Vehicles | 13,349 | - | - | - | 13,349 |
| Total depreciable capital assets | 17,582,422 | 57,824 | - | - | 17,640,246 |
| Less: accumulated depreciation | 9,378,653 | 743,175 | - | - | 10,121,828 |
| Total depreciable capital assets, net | 8,203,769 | (685,351) | - | - | 7,518,418 |
| Total capital assets, net | \$ 9,365,479 | \$ (647,661) | \$ - | \$ - | \$ 8,717,818 |

Depreciation expense for sewer operations was \$743,175 at June 30, 2022.

| Combined | Balance June 30, 2021 | Additions | Deletions | Adjustments | Balance June 30, 2022 |
|--|--------------------------|-------------------|-------------|-------------------|--------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 824,510 | \$ - | \$ - | \$ - | \$ 824,510 |
| Construction in progress | 1,811,330 | 1,144,760 | - | 365,505 | 3,321,595 |
| Total capital assets, not being depreciated | 2,635,840 | 1,144,760 | - | 365,505 | 4,146,105 |
| Depreciable capital assets: | | | | | |
| Water systems | 13,282,361 | 300,061 | - | - | 13,582,422 |
| Sewer systems | 15,687,464 | - | - | - | 15,687,464 |
| Buildings and fixtures - Water | 4,262,519 | 115,545 | - | - | 4,378,064 |
| Buildings and fixtures - Sewer | 1,881,610 | 57,824 | - | - | 1,939,434 |
| Vehicles | 208,771 | - | - | - | 208,771 |
| Total depreciable capital assets | 35,322,725 | 473,430 | - | - | 35,796,155 |
| Less: accumulated depreciation | 15,444,813 | 1,402,988 | - | - | 16,847,801 |
| Total depreciable capital assets, net | 19,877,912 | (929,558) | - | - | 18,948,354 |
| Total capital assets, net | \$ 22,513,752 | \$ 215,202 | \$ - | \$ 365,505 | \$ 23,094,459 |

Total depreciation expense was \$1,402,988 at June 30, 2022.

NOTE 4 – 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 \$3,778,000, 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.

NOTE 4 – CERTIFICATES OF PARTICIPATION REFINANCING (Continued)

| <u>Debt</u> | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Amount of Original Issue</u> | <u>Debt Outstanding June 30, 2021</u> | <u>Redeemed During Year</u> | <u>Debt Outstanding June 30, 2022</u> |
|------------------------------------|----------------------|----------------------|---------------------------------|---------------------------------------|-----------------------------|---------------------------------------|
| Certificates of Participation 2008 | 4.125% | 5/1/2008 | \$ 4,561,000 | \$ 3,778,000 | \$ 3,778,000 | \$ - |
| Installment Purchase Contract 2021 | 2.850% | 7/1/2021 | <u>3,824,000</u> | <u>-</u> | <u>127,000</u> | <u>3,697,000</u> |
| | | | <u>\$ 8,385,000</u> | <u>\$ 3,778,000</u> | <u>\$ 3,905,000</u> | <u>\$ 3,697,000</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> |
|------------------------------|---------------------|---------------------|---------------------|
| 2023 | \$ 140,000 | \$ 103,370 | \$ 243,370 |
| 2024 | 144,000 | 99,323 | 243,323 |
| 2025 | 148,000 | 95,162 | 243,162 |
| 2026 | 152,000 | 90,887 | 242,887 |
| 2027 | 156,000 | 86,498 | 242,498 |
| 2028-2032 | 851,000 | 362,107 | 1,213,107 |
| 2033-2037 | 979,000 | 215,859 | 1,194,859 |
| 2038-2042 | <u>1,127,000</u> | <u>98,154</u> | <u>1,225,154</u> |
| | <u>\$ 3,697,000</u> | <u>\$ 1,151,360</u> | <u>\$ 4,848,360</u> |

NOTE 5 – BONDS

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

The outstanding limited obligation improvement bond debt as of June 30, 2022, is as follows:

| <u>Bond</u> | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Amount of Original Issue</u> | <u>Bonds Outstanding June 30, 2021</u> | <u>Redeemed During Year</u> | <u>Bonds Outstanding June 30, 2022</u> |
|--------------------|----------------------|----------------------|---------------------------------|--|-----------------------------|--|
| Limited Obligation | 4.5% | 1/7/1998 | <u>\$ 2,615,174</u> | <u>\$ 326,000</u> | <u>\$ 159,500</u> | <u>\$ 166,500</u> |

The annual requirements to amortize the bonds outstanding as of June 30, 2022, are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|-------------------|-----------------|-------------------|
| 2023 | <u>\$ 166,500</u> | <u>\$ 3,746</u> | <u>\$ 170,246</u> |
| | <u>\$ 166,500</u> | <u>\$ 3,746</u> | <u>\$ 170,246</u> |

NOTE 6 – 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.

NOTE 6 – LOANS PAYABLE (Continued)

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, 2022, are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Total</u> |
|------------------------------|-------------------|-------------------|
| 2023 | \$ 37,491 | \$ 37,491 |
| 2024 | 37,491 | 37,491 |
| 2025 | 37,491 | 37,491 |
| 2026 | 37,491 | 37,491 |
| 2027 | 37,491 | 37,491 |
| 2028-2032 | 187,455 | 187,455 |
| 2033-2035 | 112,480 | 112,480 |
| | <u>\$ 487,390</u> | <u>\$ 487,390</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, 2022, was \$1,954,392. 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.

The annual requirements to amortize the note outstanding at June 30, 2022, are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|---------------------|-------------------|---------------------|
| 2023 | \$ 252,224 | \$ 18,917 | \$ 271,141 |
| 2024 | 254,709 | 16,431 | 271,140 |
| 2025 | 257,306 | 13,835 | 271,141 |
| 2026 | 259,885 | 11,255 | 271,140 |
| 2027 | 262,490 | 86,550 | 349,040 |
| 2028-2030 | 667,778 | 10,070 | 677,848 |
| | <u>\$ 1,954,392</u> | <u>\$ 157,058</u> | <u>\$ 2,111,450</u> |

NOTE 7 – LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2022, is as follows:

| | <u>Balance June 30, 2021</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2022</u> | <u>Due Within One Year</u> | <u>Due After One Year</u> |
|-----------------------------------|----------------------------------|---------------------|---------------------|----------------------------------|--------------------------------|-------------------------------|
| Bonds: | | | | | | |
| Limited obligation | \$ 326,000 | \$ - | \$ 159,500 | \$ 166,500 | \$ 166,500 | \$ - |
| Certificates of participation | 3,778,000 | - | 3,778,000 | - | - | - |
| State of California loan | 524,881 | - | 37,491 | 487,390 | 37,491 | 449,899 |
| California Energy Commission loan | 2,204,112 | - | 249,720 | 1,954,392 | 252,224 | 1,702,168 |
| Installment purchase contract | - | 3,824,000 | 127,000 | 3,697,000 | 140,000 | 3,557,000 |
| Compensated absences | 80,906 | 93,118 | 97,224 | 76,800 | 76,800 | - |
| Net pension liability (asset) | 72,929 | - | 103,956 | (31,027) | - | (31,027) |
| | <u>\$ 6,986,828</u> | <u>\$ 3,917,118</u> | <u>\$ 4,552,891</u> | <u>\$ 6,351,055</u> | <u>\$ 673,015</u> | <u>\$ 5,678,040</u> |

NOTE 8 – PENSION PLAN

General 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, 2022, 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 | 4 |
| Active Employees | <u>12</u> |
| Total | <u><u>21</u></u> |

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.

NOTE 8 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

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 | \$ 19,964,594,105 |
| Less: Plan fiduciary net position | <u>18,065,791,524</u> |
| Net pension liability of employers | <u><u>\$ 1,898,802,581</u></u> |

The NPA of the District was \$31,027 at June 30, 2022.

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, 2020 (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, 2021 (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).

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

As of June 30, 2022, 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 | \$ 96,863 | \$ - |
| Differences between Actual and Expected Experience | - | 2,261 |
| Changes in Assumptions | - | - |
| Net Differences between Projected and Actual Earnings on Plan Investments | 19,077 | - |
| Differences between Employer's Contributions and Proportionate Share of Contributions | 24,610 | - |
| Changes in Employer's Proportion | 22,443 | - |
| Total | \$ 162,993 | \$ 2,261 |
| | Deferred Outflows of Resources Sewer | Deferred Inflows of Resources Sewer |
| Sewer Operations | | |
| Pension Contributions Subsequent to Measurement Date | \$ 52,469 | \$ - |
| Differences between Actual and Expected Experience | - | 1,218 |
| Changes in Assumptions | - | - |
| Net Differences between Projected and Actual Earnings on Plan Investments | 8,008 | - |
| Differences between Employer's Contributions and Proportionate Share of Contributions | 10,331 | - |
| Changes in Employer's Proportion | 9,421 | - |
| Total | \$ 80,229 | \$ 1,218 |
| | Deferred Outflows of Resources Total | Deferred Inflows of Resources Total |
| Combined Total | | |
| Pension Contributions Subsequent to Measurement Date | \$ 149,332 | \$ - |
| Differences between Actual and Expected Experience | - | 3,479 |
| Changes in Assumptions | - | - |
| Net Differences between Projected and Actual Earnings on Plan Investments | 27,085 | - |
| Differences between Employer's Contributions and Proportionate Share of Contributions | 34,941 | - |
| Changes in Employer's Proportion | 31,864 | - |
| Total | \$ 243,222 | \$ 3,479 |

NOTE 8 – 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 \$59,860 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, 2023.

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 <u>June 30</u> | <u>Amount</u> |
|---|------------------|
| 2023 | \$ 38,065 |
| 2024 | 28,636 |
| 2025 | 16,225 |
| 2026 | <u>7,485</u> |
| Total | <u>\$ 90,411</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, 2020 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 8 – 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' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2022, 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, 2022, using an annual actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, 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, 2020 and the June 30, 2021 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Valuation Date | June 30, 2020 |
| Measurement Date | June 30, 2021 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| 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 table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2020 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 7.15%. 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.

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.

NOTE 8 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION (Continued)

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 ^(a)</u> | <u>Real Return Years 11+ ^(b)</u> |
|--------------------|---|--|---|
| Public equity | 50.00% | 4.80% | 5.98% |
| Fixed income | 28.00% | 1.00% | 2.62% |
| Inflation assets | 0.00% | 0.77% | 1.81% |
| Private equity | 8.00% | 6.30% | 7.23% |
| Real assets | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | 0.00% | -0.92% |
| Total | <u>100.00%</u> | | |

^(a) An expected inflation of 2.0% used for this period.

^(b) An expected inflation of 2.92% used for this period.

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 (6.15%) Net Pension Liability | \$ 83,900 |
| Current Discount Rate (7.15%) Net Pension Liability (Asset) | \$ (31,027) |
| 1% Increase (8.15%) Net Pension Liability (Asset) | \$ (126,035) |

NOTE 8 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION (Continued)

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

NOTE 9 – 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, 2022, the District recognized \$118,321 in lease revenue and \$38,839 in interest income related to this agreement. At June 30, 2022, the District recorded a lease receivable balance of \$2,572,951 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, 2022, the balance of deferred inflows of resources was \$2,484,736.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 1, 2023, 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, 2022
LAST 10 YEARS***

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| District's Proportion of the Net Pension Liability | 0.00336% | 0.00173% | 0.00127% | 0.00088% |
| District's Proportionate Share of the Net Pension (Asset) Liability | \$ (31,027) | \$ 72,929 | \$ 50,680 | \$ 33,137 |
| Covered Payroll | \$ 705,580 | \$ 757,940 | \$ 743,760 | \$ 698,534 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | -4.40% | 9.62% | 6.81% | 4.74% |
| Plan's Fiduciary Net Position | \$ 18,065,791,524 | \$ 14,702,361,183 | \$ 13,979,687,268 | \$ 13,122,440,092 |
| Plan's Total Pension Liability | \$ 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 | 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, 2022
LAST 10 YEARS***

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|---------------|---------------|---------------|---------------|
| Contractually Required Contribution (Actuarially Determined) | \$ 60,742 | \$ 54,162 | \$ 46,581 | \$ 34,236 |
| Contributions in Relation to the Actuarially Determined Contributions | <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> |
| Covered Payroll | \$ 705,580 | \$ 757,940 | \$ 743,760 | \$ 698,534 |
| Contributions as a Percentage of Covered Payroll | 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, 2022**

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 1, 2023.

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

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
February 1, 2023

**LAMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF CURRENT YEAR AND PRIOR YEAR
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2022**

There were no findings and recommendations for the year ended June 30, 2022.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2021-1 – Year-End Close and Financial Reporting

Criteria: A strong system of internal controls requires that management have proper oversight over the year-end close to ensure the general ledger account balances are reconciled to the subsidiary ledger on a periodic basis, as well as during the year-end financial close process in order to accurately and completely close the general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Condition: During the audit of the Lamont Public Utility District's (the District) financial statements, we identified several account balances that had not been reconciled, year-end accruals not performed, and other accounts not analyzed, which caused delays in the completion of the District's audit and necessitated the proposal of various audit adjustments. We also noted the District does not require another responsible individual to review and authorize the year-end close journal entries to ensure they are properly recorded. As a result, we noted various errors in journal entries posted, which caused additional proposed audit adjustments to correct the errors.

Cause of the Condition: The District's Accounting Manager position was vacant for several months due to the death of the current finance manager at that time. The District contracted a consultant, who had the credentials of a CPA yet could not perform as his credentials indicated, to assist with the accounting until the position was permanently filled. Given the lack of skill sets, this created problems in the proper closing of year end accounts.

Effect or Potential Effect of Condition: Various accounts in the financial statements were not entered properly; subsidiary ledgers were not updated; and the general ledger needed additional journal entries. Several journal entries were posted subsequent to receiving the District's trial balance. Delays in the audit process were caused by the lack of journal entries.

Recommendation: We recommend the District consider the following steps in order to address and correct the findings described above:

- 1) Create a closing checklist to assist with the preparation of audit schedules that are complete, accurate, and reconciled to the District's general ledger account balances. Additionally, ensure there is oversight over this process to ensure it is performed in a timely manner.
- 2) Provide additional training in governmental accounting to staff in order to ensure they are current with all financial accounting and reporting requirements.
- 3) Contract an outside certified public accountant (CPA) with Governmental Accounting experience to review the general ledger on a monthly basis and ensure the subsidiary ledgers are updated and reconciled to the general ledger. The outside CPA would assist with the year-end close to ensure all accruals are posted correctly and accounts analyzed and adjusted as needed. This individual would also review and authorize journal entries that are prepared by District staff, which would strengthen controls over the journal entry process.

Management Response: District management staff had already taken the necessary steps to address numbers 1, 2, and 3 above. Management has made the necessary corrections and taken the steps to rectify the above comments even before this audit was complete. We paid a third-party CPA firm other than Brown and Armstrong to provide training to staff and assist in year-end closing. Items 1, 2, and 3 above are no longer issues or findings within the District.

Current Year Status: District management staff implemented the necessary steps to address numbers 1, 2, and 3 above in advance of the report from the prior year. Staff continues to follow those recommendations into this year and will do so in future years. Further, staff have been trained by third-party experts and that training has been assimilated and implemented into our financial process.

In short, the District continues to operate as outlined above in the management response. Staff is now properly trained in closing and other noted procedures and operates accordingly and will continue to do so.