

LEBEC COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2023**

**LEBEC COUNTY WATER DISTRICT
LEBEC, CALIFORNIA
JUNE 30, 2023**

TABLE OF CONTENTS

	<u>Page</u>
Organization	i
FINANCIAL INFORMATION:	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited).....	4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position.....	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	11
SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual.....	18
Schedule of Operating Revenues	19
Schedule of Operating Expenses	20
OTHER REPORT:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Schedule of Findings and Recommendations	23
Status of Prior Year Audit Findings.....	24

**LEBEC COUNTY WATER DISTRICT
ORGANIZATION
JUNE 30, 2023**

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rick Puckett	President	December 2024
Nic Wenderoth	Vice President	December 2024
Ronald Benjamin	Secretary/Treasurer	December 2024
Chris Guadarrama	Director	December 2024

DISTRICT PERSONNEL

<u>NAME</u>	<u>TITLE</u>
Daniel Garcia	Lead Water Operator
Jessica Carroll	General Manager/Clerk of the Board
William Adame	Water Operator

FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lebec County Water District
Lebec, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Lebec County Water District (the District) as of and for the year ended June 30, 2023, and the related notes to the basic 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, the financial position of the District, as of June 30, 2023, and the changes in financial position, and 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Operating Revenues, Schedule of Operating Expenses, and budgetary comparison information are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Revenues, Schedule of Operating Expenses, and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Revenues, Schedule of Operating Expenses, and budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 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

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 28, 2023

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
JUNE 30, 2023**

INTRODUCTION

The management's discussion and analysis section of the Lebec County Water District's (the District) annual financial report provides a narrative overview of the District's financial activities and financial position for the year ended June 30, 2023. This information should be read in conjunction with the District's basic financial statements and footnotes which follows this section.

PROFILE OF THE DISTRICT

The District was formed in 1968. A Board of Directors composed of five members governs the District. The District provides water to commercial and residential customers within the District's boundaries.

FINANCIAL HIGHLIGHTS

The key financial highlights for the year ended June 30, 2023, are as follows:

- Total net position of the District, the amount by which assets exceed liabilities, was \$1,352,867 as of June 30, 2023, and includes:
 - \$632,180 is the net investment in capital assets.
 - \$720,687 is unrestricted and available to meet the ongoing needs of the District.
- The total net position increased by \$26,757 as compared to prior year's increase of \$128,823. The increase in net position is related to a 3% decrease in total expenses during 2023 compared to an increase in revenue in 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Readers should evaluate the financial statements with the accompanying Notes. The Notes to the Basic Financial Statements are an integral part of the financial statements and provide useful explanations and detailed information on the financial statements. Management's Discussion and Analysis precedes the financial statements to provide required supplementary information to the financial statements.

REQUIRED FINANCIAL STATEMENTS

The *Statement of Net Position* states the financial position of the District at June 30, 2023. This statement includes the District's assets and liabilities, with the difference between the two reported as net position. The list of assets and liabilities are in order of their liquidity. Therefore, assets readily convertible to cash appear first.

The *Statement of Revenues, Expenses, and Changes in Net Position* accounts for the annual results of operations. This statement shows the current year's revenues, expenses, capital contributions, and also calculates the change in net position. The sum of the prior year's net position balance and the current year's change in net position equals the ending net position balance. The same ending net position balance appears on the *Statement of Net Position*. Over time, changes in net position serve as a key indicator of the District's financial position.

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Both the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position* are shown using the accrual basis of accounting. This means revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

By contrast, the *Statement of Cash Flows* presents information on changes in cash and cash equivalents during the year. The statement categorizes changes by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. From this statement the reader can obtain information on the sources and uses of the District's cash.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 17 of this report.

Supplementary Information – In addition to the basic financial statements and accompanying notes, the District also presents a budgetary comparison schedule as part of required supplementary information. The budgetary comparison schedule is presented on a U.S. GAAP basis in this section. The schedule is intended to demonstrate the District's compliance with the legally adopted and final amended budget.

The supplementary information, budget to actual, can be found on page 20 of this report.

Net Position – The following is a condensed version of the Statement of Net Position for June 30, 2023, compared to June 30, 2022.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Assets:				
Current Assets	\$ 747,186	\$ 686,015	\$ 61,171	9%
Noncurrent Assets, Capital Assets, Net	<u>632,180</u>	<u>686,661</u>	<u>(54,481)</u>	<u>-8%</u>
Total Assets	<u>\$ 1,379,366</u>	<u>\$ 1,372,676</u>	<u>\$ 6,690</u>	<u>0%</u>
Liabilities:				
Current Liabilities	<u>\$ 26,499</u>	<u>\$ 46,566</u>	<u>\$ (20,067)</u>	<u>-43%</u>
Total Liabilities	<u>26,499</u>	<u>46,566</u>	<u>(20,067)</u>	<u>-43%</u>
Net Position:				
Net Investment in Capital Assets	632,180	686,661	(54,481)	-8%
Unrestricted	<u>720,687</u>	<u>639,449</u>	<u>81,238</u>	<u>13%</u>
Total Net Position	<u>1,352,867</u>	<u>1,326,110</u>	<u>26,757</u>	<u>2%</u>
Total Liabilities and Net Position	<u>\$ 1,379,366</u>	<u>\$ 1,372,676</u>	<u>\$ 6,690</u>	<u>0%</u>

Total net position increased \$26,757 or 2% from the prior year. Overall, the District's financial health is steady, which is shown by the District's significant cash balances.

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Changes in Net Position – The results of this year's operations as a whole are reported in the Statement of Revenues, Expenses, and Changes in Net Position. The following is a condensed version of the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2023, compared to June 30, 2022.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Commercial Water Sales	\$ 145,554	\$ 188,460	\$ (42,906)	-23%
Residential Water Sales	274,043	222,274	51,769	23%
Surplus Water Sales	65,139	48,973	16,166	33%
Property Taxes	56,984	53,045	3,939	7%
Donated Capital Asset	-	151,564	(151,564)	-100%
Other	17,432	13,542	3,890	29%
	<u>559,152</u>	<u>677,858</u>	<u>(118,706)</u>	<u>-18%</u>
Total Revenues				
Expenses	<u>532,395</u>	<u>549,035</u>	<u>(16,640)</u>	<u>-3%</u>
Change in Net Position	<u>\$ 26,757</u>	<u>\$ 128,823</u>	<u>\$ (102,066)</u>	<u>-79%</u>

Revenues – For the year ended June 30, 2023, revenues total \$559,152, a decrease of \$118,706 or (18%) over prior year. The decrease was due to donation revenue received during the prior year.

Expenses – For the year ended June 30, 2023, expenses total \$532,395, a decrease of \$16,640 or (3%) over prior year. The decrease was due to a decrease in depreciation expense.

CAPITAL ASSETS

At June 30, 2023, the District's capital assets, before accumulated depreciation, were \$1,804,451.

The following is a summary of the capital assets, net of accumulated depreciation, for the years ended June 30, 2023 and 2022:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Land	\$ 15,521	\$ 15,521	\$ -	0%
Transmission and Distribution	1,186,363	1,128,430	57,933	5%
Source of Supplies	212,628	212,628	-	0%
General Plant	305,897	373,130	(67,233)	-18%
Pumping Equipment	84,042	84,042	-	0%
	<u>1,804,451</u>	<u>1,813,751</u>	<u>(9,300)</u>	<u>-1%</u>
Total Capital Assets				
Less Accumulated Depreciation	<u>(1,172,271)</u>	<u>(1,127,090)</u>	<u>(45,181)</u>	<u>4%</u>
Total Assets, Net of Depreciation	<u>\$ 632,180</u>	<u>\$ 686,661</u>	<u>\$ (54,481)</u>	<u>-8%</u>

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

BUDGET TO ACTUAL

The District collected \$12,035 more in operating revenues as compared with the budget. Actual revenue figures may vary from what was estimated in the budget. Operating expenses were budgeted at \$544,192, and actual operating expenses were under budget by \$12,936. The budget versus actual comparison can be found on page 18.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District remains dependent on residential and commercial water sales which are the District's primary source of revenue. This revenue source is economically sensitive to water prices and subject to slowdowns in the economy and legislative appropriations.

The District is committed to maintaining a cash reserve for operations in the amount of \$120,000 each year, both for financial stability and in anticipation of the capital and ongoing operational needs of the District. For the year ended June 30 2024, budgeted expenses are balanced with anticipated revenues of approximately \$574,000.

The budget for the year ended June 30, 2024, includes:

- Expect an increase in payroll and payroll related expenses as a result of pay raises. Total payroll expenses are budgeted to increase by approximately \$14,000.
- Expect an increase in overall expenses due to inflation and increased insurance costs. Total expenses are budgeted to increase by approximately \$50,000.

CONTACTING THE DISTRICT

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens, and customers with an overview of the Lebec County Water District's finances and to demonstrate its accountability for funds received.

For additional information about this report, please contact:

Jessica Carroll, General Manager
323 Frazier Mountain Park Road
Lebec, California 93243

BASIC FINANCIAL STATEMENTS

**LEBEC COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 661,260
Accounts Receivable	47,325
Prepaid Expenses	2,100
Deposits	1,000
Inventory	35,501
	747,186

Total Current Assets	747,186
----------------------	---------

NONCURRENT ASSETS

Capital Assets Not Being Depreciated	15,521
Depreciable Capital Assets, Net	616,659
	632,180

Total Noncurrent Assets	632,180
-------------------------	---------

Total Assets	\$ 1,379,366
--------------	--------------

LIABILITIES

CURRENT LIABILITIES

Other Current Liabilities	\$ 26,499
---------------------------	-----------

Total Current Liabilities	26,499
---------------------------	--------

NET POSITION

NET POSITION

Net Investment in Capital Assets	632,180
Unrestricted	720,687
	1,352,867

Total Net Position	1,352,867
--------------------	-----------

Total Liabilities and Net Position	\$ 1,379,366
------------------------------------	--------------

See accompanying notes to the basic financial statements.

**LEBEC COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023**

OPERATING REVENUES	
Water Revenues	\$ 484,736
Fees and Permits	17,299
	<hr/>
Total Operating Revenues	502,035
	<hr/>
OPERATING EXPENSES	
General and Administrative	133,172
Transmission and Distribution	280,249
Depreciation Expense	61,631
Pumping	56,204
	<hr/>
Total Operating Expenses	531,256
	<hr/>
Operating Loss	(29,221)
	<hr/>
NONOPERATING REVENUES	
Property Tax Revenue	56,984
Interest Income	133
	<hr/>
Total Nonoperating Revenues	57,117
	<hr/>
NONOPERATING EXPENSES	
Grant Expense	1,101
Interest Expense	38
	<hr/>
Total Nonoperating Expenses	1,139
	<hr/>
Change in Net Position	26,757
Net Position - Beginning of Year	1,326,110
	<hr/>
Net Position - End of Year	\$ 1,352,867
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**LEBEC COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 500,767
Cash Paid to Suppliers	(273,905)
Cash Paid to Employees	<u>(216,323)</u>
Net Cash Provided by Operating Activities	<u>10,539</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grant Funds Used	(1,101)
Cash Paid for Interest Expense	(38)
Cash Received from Property Taxes	<u>56,984</u>
Net Cash Provided by Noncapital Financing Activities	<u>55,845</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Capital Assets	(62,433)
Proceeds from of Capital Assets	55,283
Cash Receipt from Interest Income	<u>133</u>
Net Cash Used by Investing Activities	<u>(7,017)</u>

Net Increase in Cash and Cash Equivalents	<u>59,367</u>
Cash and Cash Equivalents - Beginning of Year	<u>601,893</u>
Cash and Cash Equivalents - End of Year	<u>\$ 661,260</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (29,221)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	61,631
Changes in Assets - (Increase)/Decrease	
Accounts Receivable	(1,268)
Inventory	660
Prepaid Expenses	(1,196)
Changes in Liabilities - Increase/(Decrease)	
Accounts Payable	(11,812)
Other Current Liabilities	<u>(8,255)</u>
Net Cash Provided by Operating Activities	<u>\$ 10,539</u>

See accompanying notes to the basic financial statements.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF ACCOUNTING

A. Nature of Operations

The Lebec County Water District (the District) was established by local election held within the boundaries of the proposed district and by resolution of the Kern County Board of Supervisors, effective January 13, 1968, in accordance with the provisions of the County Water District Law, Division 12, Section 30,000 et seq., of the Water Code of the State of California.

The District is governed by a Board of Directors comprised of five members who are registered voters of the District. The term of office for each director is two to four years. The District was formed to provide for the organization and management of water works to be used for the acquisition or construction of water facilities for the distribution and sale of water. The District provides water to customers in Lebec, California.

B. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District reports its activities as an enterprise fund. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles of the District conform to accounting principles generally accepted in the United States of America applicable to government-type organizations. The following is a summary of the District's significant accounting policies:

A. Component Units

Under the provisions of these statements, the District is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments. The District designates its own governing board and management. The County of Kern is not financially accountable for the District as it cannot impose its will on the District, and there is no potential for the District to provide financial benefits to, or impose financial burdens on, the County of Kern. Accordingly, the District is not a component unit of the financial reporting entity of the County of Kern.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Operating and Nonoperating Activities

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water sales. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Property Taxes

The District is authorized to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations, subject to certain limitations in the Water Code, the Revenue and Taxation Code, and the California Constitution.

Property taxes are levied annually by the District's Board of Directors as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments, which are due by December 1 and February 1. The taxes levied are billed and collected by the County of Kern and are remitted to the District throughout the year. Property taxes are recognized as revenues in the year for which they are levied.

D. Financial Reporting

The basic financial statements, which include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the related Notes to the Basic Financial Statements, report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related standards.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. At June 30, 2023, cash and cash equivalents include cash in banks.

F. Accounts Receivable

The District's historical annual experience of uncollectible accounts has been consistently small; therefore, any method used in calculating an allowance for uncollectible accounts results in an insignificant amount. Consequently, no provision for uncollectible accounts has been recorded; instead the District uses the direct charge off method for bad debts. The District generally reads the meters of the District's "metered" customers in the last week of the month and accounts for that revenue in the month the meter was read.

G. Inventory

Inventory consists principally of residential water meters, pipes, and fittings. Inventory is valued at the lower of cost or net realizable value using a first-in, first out (FIFO) inventory method.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the enterprise fund on the Statement of Net Position as nondepreciable or depreciable noncurrent assets. Capital assets are defined by the District as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Transmission and distribution	25-40 years
Source of supplies	25 years
General plant	5 years
Pumping equipment	25 years

I. Compensated Absences

Accumulated vacation benefits and sick leave are recorded as other current liabilities on the books of the District. The liability has been determined to be \$15,817 as of June 30, 2023.

J. Net Position

Fund equity for an enterprise fund is classified as net position and displayed in three components:

- *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- *Restricted net position* – Consists of net position with constraints placed on its use either by external groups, such as granters or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

K. Restricted Net Position

Amounts shown as restricted net position have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed. The District has no restricted net position at June 30, 2023.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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 certain 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.

M. New Accounting Pronouncements – Implemented

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. The District does not have these types of activities, as such, this standard did not have an effect on the basic 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 reporting periods thereafter. The District does not have these types of activities, as such, this standard did not have an effect on the basic 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 does not have these types of activities, as such, this standard did not have an effect on the basic 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 reporting periods thereafter.

Earlier application is encouraged and is permitted by topic.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Future GASB 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 reporting periods thereafter. The District has not fully judged the effect of implementation of GASB Statement No. 100 as of the date of the basic 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 reporting periods thereafter. The District has not fully judged the effect of implementation of GASB Statement No. 101 as of the date of the basic financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

The District’s cash and cash equivalents at June 30, 2023, consisted of:

Cash on Hand	\$ 300
Deposits with Financial Institutions	660,960
	660,960
Total	\$ 661,260

A. Policies and Practices

The California Government Code requires California banks and savings and loan associations to secure the District’s cash deposits by pledging securities as collateral. The Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of general creditor.

The fair value of pledged securities must equal at least 110 percent of the District’s cash deposits. California law also allows the institution to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of District’s total cash deposits. The District may waive collateral requirements for cash deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The District, however, has not waived the collateralization requirements.

B. Custodial Credit Risk – Deposits

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 District maintains its cash in a savings account and a checking account with California Bank and Trust. At June 30, 2023, the District’s bank balance of \$250,000 was insured, but \$419,428 was exposed to custodial credit risk because it exceeded the FDIC insured limits and was not collateralized with securities held by the pledging financial institution’s trust department or agent, and not in the name of the District.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 4 – ACCOUNTS RECEIVABLE

The District's accounts receivable as of June 30, 2023, were categorized as follows:

Ratepayers Accounts Receivable (Operating)	\$ 42,207
Grant Receivable (Nonoperating)	<u>5,118</u>
Total	<u><u>\$ 47,325</u></u>

NOTE 5 – CAPITAL ASSETS

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

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2023</u>
Nondepreciable Assets:				
Land	<u>\$ 15,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,521</u>
Total Nondepreciable Assets	<u>15,521</u>	<u>-</u>	<u>-</u>	<u>15,521</u>
Depreciable Assets:				
Transmission and Distribution	1,128,430	57,933	-	1,186,363
Source of Supplies	212,628	-	-	212,628
General Plant	356,680	4,500	(55,283)	305,897
Pumping Equipment	<u>84,042</u>	<u>-</u>	<u>-</u>	<u>84,042</u>
Total Depreciable Assets	<u>1,781,780</u>	<u>62,433</u>	<u>(55,283)</u>	<u>1,788,930</u>
Less: Accumulated Depreciation:				
Transmission and Distribution	(848,587)	(17,452)	-	(866,039)
Source of Supplies	(88,991)	(2,489)	-	(91,480)
General Plant	(126,010)	(7,612)	-	(133,622)
Pumping Equipment	<u>(47,052)</u>	<u>(34,078)</u>	<u>-</u>	<u>(81,130)</u>
Total Accumulated Depreciation	<u>(1,110,640)</u>	<u>(61,631)</u>	<u>-</u>	<u>(1,172,271)</u>
Total Depreciable Assets, Net	<u>671,140</u>	<u>802</u>	<u>(55,283)</u>	<u>616,659</u>
Total Capital Assets, Net	<u><u>\$ 686,661</u></u>	<u><u>\$ 802</u></u>	<u><u>\$ (55,283)</u></u>	<u><u>\$ 632,180</u></u>

Depreciation expense for the year ended June 30, 2023, was \$61,631.

NOTE 6 – ECONOMIC AND GEOGRAPHIC DEPENDENCY

The District relies upon ground water wells for its source of water supply. The loss of any of the larger wells could negatively impact the source of water supply and impair the District’s operations. Any change in the availability of or demand for water in Lebec could negatively impact the District’s operations.

NOTE 7 – RETIREMENT PLANS

Effective July 1, 2016, the District began sponsoring a SIMPLE Individual Retirement Account (IRA) with Wells Fargo Financial Services for employees. Employees meeting certain service requirements may contribute up to 100% of their compensation to the IRA, not to exceed \$6,000 annually. The District elected to contribute 2% of employee compensation regardless of employee contributions. The District contributions for the year ended June 30, 2023, were \$3,634.

NOTE 8 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2023, the District’s expenditures exceeded appropriations as follows:

<u>Appropriation Category</u>	<u>Excess Expenditures</u>
Transmission and Distribution	\$ 19,729
Depreciation Expense	711

NOTE 9 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 28, 2023, the date on which the financial statements were available to be issued. There were no other subsequent events identified by management which would require disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts	Actual	Variance with Final Budget
OPERATING REVENUES			
Water Revenues	\$ 478,000	\$ 484,736	\$ 6,736
Fees and Permits	12,000	17,299	5,299
Total Operating Revenues	<u>490,000</u>	<u>502,035</u>	<u>12,035</u>
OPERATING EXPENSES			
General and Administrative	162,752	133,172	29,580
Transmission and Distribution	260,520	280,249	(19,729)
Depreciation Expense	60,920	61,631	(711)
Pumping	60,000	56,204	3,796
Total Operating Expenses	<u>544,192</u>	<u>531,256</u>	<u>12,936</u>
Operating Loss	<u>(54,192)</u>	<u>(29,221)</u>	<u>24,971</u>
NONOPERATING REVENUES			
Property Tax Revenue	53,000	56,984	3,984
Interest Income	-	133	133
Total Nonoperating Revenues	<u>53,000</u>	<u>57,117</u>	<u>4,117</u>
NONOPERATING EXPENSES			
Grant Expense	-	1,101	(1,101)
Interest Expense	-	38	(38)
Total Nonoperating Expenses	<u>-</u>	<u>1,139</u>	<u>(1,139)</u>
Change in Net Position	(1,192)	26,757	27,949
Net Position - Beginning of Year	<u>1,326,110</u>	<u>1,326,110</u>	<u>-</u>
Net Position - End of Year	<u>\$ 1,324,918</u>	<u>\$ 1,352,867</u>	<u>\$ 27,949</u>

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED JUNE 30, 2023**

OPERATING REVENUES

Water Revenues	
Commercial Water Sales	\$ 145,554
Residential Water Sales	274,043
Surplus Water Sales	<u>65,139</u>
Total Water Revenues	<u>484,736</u>
 Fees and Permits Revenues	
Late Charges	16,280
Service Charges	<u>1,019</u>
Total Fees and Permits Revenues	<u>17,299</u>
 Total Operating Revenues	<u><u>\$ 502,035</u></u>

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023**

	Transmission and Distribution	General and Administrative	Pumping	Depreciation	Total
OPERATING EXPENSES					
Salaries and Wages	\$ 230,012	\$ 4,300	\$ -	\$ -	\$ 234,312
Supplies and Services	26,832	110,941	-	-	137,773
Utilities	-	2,509	56,204	-	58,713
Benefits	-	15,422	-	-	15,422
Repairs and Maintenance	23,405	-	-	-	23,405
Depreciation	-	-	-	61,631	61,631
 Total Operating Expenses	 <u>\$ 280,249</u>	 <u>\$ 133,172</u>	 <u>\$ 56,204</u>	 <u>\$ 61,631</u>	 <u>\$ 531,256</u>

OTHER REPORT

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

To the Board of Directors
Lebec County Water District
Lebec, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lebec County Water District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 28, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as item 2022-1 and 2022-2, that we consider to be significant deficiencies.

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*.

The District's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and recommendations. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 28, 2023

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2023**

2023-1 Preparation of Financial Statements

Condition: For convenience and efficiency, management relies on the external auditor to assist in preparing the financial statements. Brown Armstrong Accountancy Corporation (BAAC) assists in preparation and drafting the financial statements and footnotes for the District. Upon completion, a draft of the financial statements is submitted to the District's management for review and approval. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by BAAC in order to correct any material mistakes.

Criteria: A strong system of internal controls should include controls over the complete preparation of financial statements and footnote disclosures.

Effect: Reliance on external preparation of the financial statements could result in material omissions or other misstatements in the financial statements. BAAC assists with the preparation of the financial statements, which is a less effective control than performing the reporting function internally.

Cause: Management relies upon BAAC to draft the financial statements as a convenience to management.

Recommendation: We recommend that the District designate a member of management to prepare financial statements and footnote disclosures.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

2023-2 Capital Asset Accounting

Condition: Various capital assets of the District were depreciated using 200% declining balance method of depreciation, a form of accelerated depreciation in the prior years. This method of depreciation was not in accordance with U.S. GAAP. The District corrected the calculation for depreciation using the straight-line method in the current year, but did not correct prior balances. Additionally, we noted a newly acquired asset was incorrectly input into the capital asset schedule.

Criteria: Management should consistently apply U.S. GAAP when accounting for financial transactions. This includes using the straight-line method of depreciation when depreciating assets.

Cause of Condition: Input error.

Potential Effect of Condition: Misstatement of capital asset balances.

Recommendation: We recommend that management updates the capital asset ledger to properly report balances.

Management's Comments Regarding Corrective Actions Planned: The District updated their software to calculate depreciation using the straight-line method from July 1, 2022, going forward and agree with our recommendation to update for fiscal year 2024.

**LEBEC COUNTY WATER DISTRICT
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

2022-1 Preparation of Financial Statements

Condition: For convenience and efficiency, management relies on the external auditor to assist in preparing the financial statements. Brown Armstrong Accountancy Corporation (BAAC) assists in preparation and drafting the financial statements and footnotes for the District. Upon completion, a draft of the financial statements is submitted to the District's management for review and approval. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by BAAC in order to correct any material mistakes.

Criteria: A strong system of internal controls should include controls over the complete preparation of financial statements and footnote disclosures.

Effect: Reliance on external preparation of the financial statements could result in material omissions or other misstatements in the financial statements. BAAC assists with the preparation of the financial statements, which is a less effective control than performing the reporting function internally.

Cause: Management relies upon BAAC to draft the financial statements as a convenience to management.

Recommendation: We recommend that the District designate a member of management to prepare financial statements and footnote disclosures.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

Current Year Status: See current year finding 2023-1.

2022-2 Method of Depreciation Not in Accordance with U.S. GAAP

Condition: Various capital assets of the District were depreciated using 200% declining balance method of depreciation, a form of accelerated depreciation. This method of depreciation is not in accordance with U.S. GAAP.

Criteria: Management should consistently apply U.S. GAAP when accounting for financial transactions. This includes using the straight-line method of depreciation when depreciating assets.

Cause of Condition: Management failing to apply the straight-line method of depreciation to be in accordance with U.S. GAAP.

Potential Effect of Condition: Misstatement of financial statements.

Recommendation: We recommend that management ensures U.S. GAAP is consistently applied throughout all financial statement transactions.

Management's Comments Regarding Corrective Actions Planned: The District will update their software to calculate depreciation using the straight-line method from July 1, 2022, going forward and agree with our recommendation to update for fiscal year 2022. The original calculation was a default or recommended calculation in their software.

Current Year Status: Partially Implemented. See current year finding 2023-2.