

**LOST HILLS UTILITY DISTRICT**

**FINANCIAL STATEMENTS**

Years Ending June 30, 2020 and 2019

# Lost Hills Utility District

## TABLE OF CONTENTS

June 30, 2020 and 2019

<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements</b>	
Statements of Net Position – Proprietary Fund	3
Statements of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	4
Statements of Cash Flows – Proprietary Fund	5
Notes to the Basic Financial Statements	6
<b>Additional Reporting Required by Government Auditing Standards</b>	
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 <i>Government Auditing Standards</i>	19
<b>Supplemental Information</b>	
Schedules of Net Position by Department	22
Schedules of Revenues, Expenses, and Changes in Fund Net Position by Department	23

# Albert & Associates, LLP

*Certified Public Accountants*

## **Independent Auditor's Report**

The Board of Directors of the Lost Hills Utility District  
Lost Hills, California:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Lost Hills Utility District, (the District), as of and for the years ending June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility 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 Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lost Hills Utility District, as of June 30, 2020 and 2019, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lost Hills Utility District’s basic financial statements. The Schedules of Net Position by Department and Schedules of Revenues, Expenses, and Changes in Fund Net Position by Department are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Net Position by Department and Schedules of Revenues, Expenses, and Changes in Fund Net Position by Department 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 Schedules of Net Position by Department and Schedules of Revenues, Expenses, and Changes in Fund Net Position by Department 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 August 31, 2020, on our consideration of Lost Hills Utility 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 Lost Hills Utility 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 Lost Hills Utility District’s internal control over financial reporting and compliance.

*Albert & Associates, LLP*

Wasco, California  
August 31, 2020

# Lost Hills Utility District

## STATEMENTS OF NET POSITION PROPRIETARY FUND June 30, 2020 and 2019

<b>Assets:</b>	2020	2019
Current Assets:		
Cash	\$ 2,459,569	\$ 2,549,019
Receivables, net	337,231	143,869
Prepaid expenses	27,972	22,625
Total Current Assets	2,824,772	2,715,513
Noncurrent Assets:		
Capital Assets:		
Capital assets not being depreciated	468,237	364,971
Depreciable buildings, property and equipment, net of accumulated depreciation	5,706,694	5,929,831
Total Noncurrent Assets	6,174,931	6,294,802
Total Assets	\$ 8,999,703	\$ 9,010,315
<b>Liabilities:</b>		
Current Liabilities:		
Accounts payable	\$ 242,675	\$ 40,873
Accrued interest payable	4,007	38,370
Accrued expenses	2,751	-
Customer deposits	12,500	9,200
Current portion of long-term debt	21,518	72,658
Total Current Liabilities	283,451	161,101
Noncurrent Liabilities:		
Accrued compensated absences	13,977	10,119
Bonds and notes payable	1,758,246	1,837,069
Total Noncurrent Liabilities	1,772,223	1,847,188
Total Liabilities	2,055,674	2,008,289
<b>Net Position:</b>		
Net Invested in Capital Assets, net of related debt	4,395,263	4,385,076
Restricted For:		
Debt service (expendable)	157,582	155,264
Capital projects (expendable)	1,122,241	1,271,701
Unrestricted	1,268,943	1,189,985
Net Position	\$ 6,944,029	\$ 7,002,026

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

**Lost Hills Utility District**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION – PROPRIETARY FUND**  
**Years Ended June 30, 2020 and 2019**

	2020	2019
<b>Operating Revenues</b>		
Charges for services	\$ 1,051,921	\$ 1,044,936
Other fees	217,400	181,299
Total Operating Revenues	1,269,321	1,226,235
<b>Operating Expenses</b>		
Vehicles	26,910	19,496
Outside services	55,625	49,830
Professional fees	116,435	122,921
Supplies	9,364	8,621
Director fees	10,154	8,347
Depreciation	368,332	367,293
Repairs and maintenance	214,323	116,373
Contract labor	23,000	26,600
Utilities and telephone	120,854	100,659
Insurance	58,764	51,240
Taxes	46,286	34,781
Payroll	282,521	282,087
Pension expense	2,804	2,377
Total Operating Expenses	1,335,372	1,190,625
Operating Income (loss)	(66,051)	35,610
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	48,732	35,303
Connection fees	49,532	29,604
Interest expense	(97,922)	(101,283)
State of California revenues (expenses)	7,712	(6,711)
Total Nonoperating Revenues (Expenses)	8,054	(43,087)
Change in Net Position	(57,997)	(7,477)
Net Position - Beginning	7,002,026	7,009,503
Net Position - Ending	\$ 6,944,029	\$ 7,002,026

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

# Lost Hills Utility District

## STATEMENTS OF CASH FLOWS PROPRIETARY FUND Years Ended June 30, 2020 and 2019

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from:		
Customers	\$ 1,079,259	\$ 1,270,620
Cash paid to:		
Suppliers	(485,260)	(591,043)
Employees	(278,716)	(280,608)
	315,283	398,969
<b>Net cash provided (used) by operating activities</b>		
<b>Net cash provided from noncapital financing activities:</b>		
Connection fees	49,532	29,604
Caltrans receipts (expenditures)	7,712	(6,711)
	57,244	22,893
<b>Net cash provided (used) by noncapital financing activities</b>		
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	(248,461)	(26,130)
Principal paid on capital debt	(129,963)	(67,420)
Interest paid on capital debt	(132,285)	(102,514)
	(510,709)	(196,064)
<b>Net cash provided (used) by capital and related financing activities</b>		
<b>Cash flows from investing activities:</b>		
Interest received	48,732	35,303
	48,732	35,303
<b>Net cash provided (used) by investing activities</b>		
<b>Net Increase (decrease) in cash and cash equivalents</b>	(89,450)	261,101
<b>Cash and equivalents, Beginning of Year</b>	2,549,019	2,287,918
<b>Cash and equivalents, End of Year</b>	\$ 2,459,569	\$ 2,549,019
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (66,051)	\$ 35,610
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	368,332	367,293
(Increase) decrease in accounts receivable	(193,362)	45,885
(Increase) decrease in prepaid expenses	(5,347)	(2,452)
Increase (decrease) in accounts payable	201,802	(49,723)
Increase (decrease) in accrued expenses	2,751	-
Increase (decrease) in customer deposits	3,300	(1,500)
Increase (decrease) in compensated Absences	3,858	3,856
	3,858	3,856
<b>Net cash provided (Used) by Operating Activities</b>	\$ 315,283	\$ 398,969

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

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements of Lost Hills Utility District (the "District") have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following summary of the District's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

**A - Reporting Entity**

The District was established in 1978 for the purpose of supplying sewer service in the Lost Hills area. The District purchased the entire local water district in 1989 for the purpose of operating a water system. The Sewer enterprise is referred to as the Sewer Department and the Water enterprise is referred to as the Water Department. The District is governed by an elected Board of Directors. The primary source of revenues are fees for sewer and water services.

The District has defined its reporting entity in accordance with accounting principles generally accepted in the United States of America which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. The Basic Financial Statements present information on the activities of the reporting entity, including all of the fund types of the District (the primary government) and its component units.

Accounting principles generally accepted in the United States of America require that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the District's operations. Therefore, they are reported as part of the primary government. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the District. The District has no discretely presented component units.

**Blended Component Units**

On July 3, 1990 the District and the Lost Hills Utility District Capital Facilities Corporation (the "Corporation") entered into a Joint Exercise of Powers Agreement for the purpose of constructing, financing, and leasing public facilities, land, and equipment for the use and benefit of the District and to borrow the necessary funds to acquire real and personal property, to enter into contracts to construct, reconstruct, modify, improve, and operate buildings, structures, equipment, facilities, and improvements. Separate financial statements are not prepared for the Corporation because it has no assets, liabilities or activity. The District Board of Directors is the governing body for the Corporation.

**B - Basis of Presentation**

**Fund Financial Statements**

The accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary.



**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 1 – Summary of Significant Accounting Policies, (continued)**

The District has only one fund for the year ended June 30, 2020 and 2019 which is a proprietary fund type, specifically an enterprise fund.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are also used when the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**C - Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

Proprietary funds are presented using the economic resources measurement focus. The accounting objectives of the economic measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

**Basis of Accounting**

The accrual basis of accounting is followed by the proprietary fund. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund’s principal ongoing operations. 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.

**D - Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items**

**Cash and Investments**

For purposes of the Statement of Cash Flows for the Proprietary fund type, cash and cash equivalents includes all pooled cash investments, non-pooled restricted cash and restricted investments with an original maturity of three months or less. The District considers the investments held by the County of Kern to be a demand deposit account where funds may be withdrawn and deposited at any time without prior notice or penalty.

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 June 30, 2020 and 2019

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**Investments**

The District is permitted by both Board policy and State law to invest in various authorized investments, subject to a variety of limits and controls, including State of California bonds, U.S. Government Agency securities (Treasury and other federal agencies) and other securities (bankers' acceptances, negotiable certificates of deposit, etc.). The District investment portfolio is primarily comprised of holdings in investment pools.

**Receivables**

All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

**Prepaid Items**

Certain payments to vendors applicable to future accounting periods are reported as prepaid items using the consumption method of accounting. Prepaid items do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved

**Capital Assets and Depreciation**

Capital assets are defined by the District as assets with an initial cost of more than \$2,500 and an estimated 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements other than buildings	10 - 20
Machinery and Equipment	5 - 8
Transmission and Distribution	20 - 75

**Compensated Absences**

Depending on job classification, length of service, and other factors, employees of the District are entitled to paid vacation, sick, and personal days off. The District's policy is to accrue only the cost of vacation as the benefit vests to the employee.

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**Long-Term Obligations**

For Proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond issuance costs, including underwriters' discount, are expensed when paid.

**Net Position**

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

**Net Invested 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 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.

When both restricted and unrestricted net position are available, it is the District's policy to use restricted net position first, and then unrestricted net position as they are needed.

**Appropriated Budget and Budgetary Control**

The Board of Directors is required to adopt an annual budget resolution by July 1 of each fiscal year for the General Fund. The budget is presented for reporting purposes on a budgetary basis consistent with accounting principles generally accepted in the United States of America.

The level of appropriated budgetary control is at the functional departmental level. The Board of Directors may authorize transfers of appropriations within a departmental function. Expenditures may not legally exceed total departmental appropriations. Supplemental appropriations during the year must be approved by the Board of Directors by a majority vote. Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the ensuing year's budget.

The District adopts a budget for the Proprietary funds; however, all Proprietary fund types are accounted for on a cost of service (net income), or "capital maintenance" measurement focus. As a result, budget comparisons are impractical. Additionally, the District is not legally mandated to report the results of operations for these Proprietary fund types on a budget comparison basis; therefore, budgetary data related to these funds has not been presented.

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**Use of Estimates**

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

**Reclassification**

Certain prior year amounts have been reclassified to conform to current year presentation.

**Note 2 – Cash and Investments**

The following is a summary of the District's cash, cash equivalents, and investments with fiscal agents at June 30, 2020 and 2019:

	2020	2019
Cash on Hand	\$ 100	\$ 100
Demand Deposits	201,241	170,332
External Cash Pool - County of Kern	2,258,228	2,378,587
Total	\$ 2,459,569	\$ 2,549,019

The External cash pool – County of Kern, includes cash and investments reserved for debt service for the following certificates of participation:

	2020	2019
1992 Water Improvement	\$ 135,036	\$ 132,919
Arsenic Removal Water System Improvement	22,546	22,345
Total	\$ 157,582	\$ 155,264

**Deposits:**

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has no deposit policy for custodial credit risk. As of June 30, 2020, the District had no exposure to custodial credit risk as the FDIC coverage limitation exceeded the demand deposit balance. At times throughout the year, the demand deposit balances exceeded the federally insured limit.

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 2 – Cash and Investments, (continued)**

**Investments:**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All the District's investments are measured using Level 1 inputs based on quoted market prices.

The District had \$2,258,228 and \$2,378,587 held by the County of Kern at June 30, 2020 and 2019 respectively.

**Interest rate risk** – The District has no investment policy for interest rate risk.

**Credit quality rating** – The District has no investments in debt securities and therefore there is no credit quality rating to disclose. The District has no investment policy for credit quality ratings.

**Concentration of credit risk** – The District has no investment policy for concentration of credit risk.

**Custodial credit risk** – The District has no investment policy for custodial credit risk.

**Note 3 – Receivables**

Receivables at June 30, 2020 and 2019 consist of the following:

	2020	2019
Accounts Receivable, trade	\$ 143,494	\$ 136,849
Interest Receivable	7,020	7,020
Caltrans Reimbursement Receivable	186,717	-
Allowance for Doubtful accounts	None	None
	\$ 337,231	\$ 143,869
Total		

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**Note 4 – Capital Assets**

Capital asset activity for the years ended June 30, 2020 and 2019 is as follows:

	June 30, 2020				Balance June 30, 2020
	Balance June 30, 2019	Additions	Deletions	Transfers	
Capital assets, not being depreciated					
Land	\$ 364,971	\$ -	\$ -	\$ -	\$ 364,971
Construction in Progress	-	103,266	-	-	103,266
Total Capital assets, not being depreciated	364,971	103,266	-	-	468,237
Capital assets, being depreciated					
Vehicles	70,590	42,509	-	-	113,099
Office Building and Equipment	120,183	-	-	-	120,183
Waste Water System	2,921,135	39,285	-	-	2,960,420
Water System	9,734,830	-	-	-	9,734,830
Water Plant & Equipment	-	63,401	-	-	63,401
Total Capital assets, being depreciated	12,846,738	145,195	-	-	12,991,933
Less accumulated depreciation for:					
Vehicles	50,555	22,623	-	-	73,178
Office Building and Equipment	73,968	4,125	-	-	78,093
Waste Water System	2,461,220	90,459	-	-	2,551,679
Water System	4,331,164	251,125	-	-	4,582,289
Total accumulated depreciation	6,916,907	368,332	-	-	7,285,239
Total capital assets, being depreciated, net	5,929,831	(223,137)	-	-	5,706,694
Governmental activities capital assets, net	\$ 6,294,802	\$ (119,871)	\$ -	\$ -	\$ 6,174,931

  

	June 30, 2019				Balance June 30, 2019
	Balance June 30, 2018	Additions	Deletions	Transfers	
Capital assets, not being depreciated					
Land	\$ 364,971	\$ -	\$ -	\$ -	\$ 364,971
Construction in Progress	-	-	-	-	-
Total Capital assets, not being depreciated	364,971	-	-	-	364,971
Capital assets, being depreciated					
Vehicles	70,590	-	-	-	70,590
Office Building and Equipment	120,183	-	-	-	120,183
Waste Water System	2,921,135	-	-	-	2,921,135
Water System	9,708,700	26,130	-	-	9,734,830
Total Capital assets, being depreciated	12,820,608	26,130	-	-	12,846,738
Less accumulated depreciation for:					
Vehicles	36,437	14,118	-	-	50,555
Office Building and Equipment	69,843	4,125	-	-	73,968
Waste Water System	2,368,084	93,136	-	-	2,461,220
Water System	4,075,250	255,914	-	-	4,331,164
Total accumulated depreciation	6,549,614	367,293	-	-	6,916,907
Total capital assets, being depreciated, net	6,270,994	(341,163)	-	-	5,929,831
Governmental activities capital assets, net	\$ 6,635,965	\$ (341,163)	\$ -	\$ -	\$ 6,294,802

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 4 – Capital Assets, (continued)**

Depreciation charged to business-type activities on the combining statements of Revenues, Expenses, and Changes in Net Position are as follows:

	2020	2019
Sewer	\$ 95,809	\$ 96,785
Water	272,523	270,508
Total	\$ 368,332	\$ 367,293

**Note 5 – Long-Term Liabilities**

Outstanding debt balances at June 30, 2020 and 2019 are as follows:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Certificates of Participation	\$ 1,836,600	\$ -	\$ (116,504)	\$ 1,720,096	\$ 7,500
Note Payable	82,500	-	(16,500)	66,000	16,500
Compensated Absences	10,119	3,858	-	13,977	-
Less Unamortized Discount	(9,373)	-	3,041	(6,332)	(2,482)
Total Long-Term Liabilities	\$ 1,919,846	\$ 3,858	\$ (129,963)	\$ 1,793,741	\$ 21,518

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Certificates of Participation	\$1,891,100	\$ -	(\$54,500)	\$1,836,600	\$59,200
Note Payable	99,000	-	(16,500)	82,500	16,500
Compensated Absences	6,263	3,856	-	10,119	-
Less Unamortized Discount	(12,953)	-	3,580	(9,373)	(3,042)
Total Long-Term Liabilities	\$ 1,983,410	\$ 3,856	\$ (67,420)	\$ 1,919,846	\$ 72,658

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 5 – Long-Term Liabilities, (continued)**

	<u>2020</u>	<u>2019</u>
Certificates of Participation:		
<p>1992 Water Improvement Certificates of Participation (COP's) dated August 1, 1992, in the original amount of \$1,939,300 at 5.625% interest; principal and interest payable each February 1 and August 1 until August 1, 2032 maturity. COP's are secured by net revenues of the water enterprise.</p>	\$ 1,351,596	\$ 1,461,100
<p>Rate Covenant – the District is required to collect rates, fees, and charges for water services sufficient to provide net revenues equal to at least 1.25 times the debt service coming due.</p>		
<p>Reserve Requirement – The District is required to maintain a reserve account holding the dollar amount necessary to equal the maximum annual debt service on the certificates.</p>		
<p>Arsenic Removal Water System Improvement Certificates of Participation (COP's) dated October 26, 2006, in the original amount of \$440,000; principal and interest at 4.125% payable each October 1 and April 1 until October 1, 2046 maturity. Loan secured by water delivery system.</p>	368,500	375,500
<p>Rate Covenant – the District is required to collect rates, fees, and charges for water services sufficient to provide net revenues equal to the installment payments coming due.</p>		
<p>Reserve Requirement – The District is required to maintain a reserve account holding the dollar amount necessary to equal the maximum annual debt service on the certificates.</p>		
<p>Total Certificates of Participation</p>	1,720,096	1,836,600



**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 5 – Note Payable, (continued)**

Note Payable: 2020 2019

Note payable dated May 26, 1989, to Chevron Incorporated in the original amount of \$656,000 at 0% interest. On May 26, 2009, the note was amended to require the then unpaid principal balance of \$231,000 to be repaid without interest in fourteen annual installments of \$16,500 beginning May 26, 2011 until May 26, 2024 maturity. The note is secured by the water collection system. The interest rate of 0% was considerably lower than market rates for secured notes payable at that time; therefore, an imputed interest rate of 4.16% has been used

for this loan which created a discount on notes payable of \$65,423. This discount reduced the original carrying amount of the note to \$165,577. The discount is being amortized over the life of the loan using the effective interest method.

	66,000	82,500
Principal		
Unamortized Discounts	<u>(6,332)</u>	<u>(9,373)</u>
	59,678	73,127
Compensated Absences Payable	<u>13,977</u>	<u>10,119</u>
Total Long-Term Liabilities	<u>\$ 1,793,741</u>	<u>\$ 1,919,846</u>

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2020, are as follows:

June 30, 2020					
Year Ending June 30	Certificate of Participation		Note Payable		
	Principal	Interest	Principal	Interest	
2021	\$ 7,596	\$ 53,076	\$ 16,500	\$	-
2022	70,700	88,981	16,500		-
2023	77,500	84,929	16,500		-
2024	84,900	80,486	16,500		-
2025	93,100	75,611	-		-
2026-2030	614,600	286,980	-		-
2031-2035	556,200	94,559	-		-
2036-2040	76,500	36,826	-		-
2041-2046	139,000	21,039	-		-
 Total	 <u>\$ 1,720,096</u>	 <u>\$ 822,487</u>	 <u>\$ 66,000</u>	 <u>\$</u>	 <u>-</u>

**Lost Hills Utility District**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 6 – Retirement Plan**

The District's defined contribution 401(k) plan, the Lost Hills Utility District 401(k) Profit Sharing Plan and Trust, provides for retirement benefits to plan members and beneficiaries. The Plan is administered by Paychex, Inc.

The Plan allows employees to make elective salary deferrals of 3% to a maximum 10% and authorizes the District to make annual discretionary matching contributions of up to 1%. For the plan year ended December 31, 2020, the District matched up to 1% of the employee's deferral, which amounted to \$2,804 (\$2,378 for December 31, 2019).

Plan participants become 20% vested in matching contributions beginning after the second year of service. This vesting increases 20% each year until fully vested after the fifth year of service.

**Note 7 – State of California Utility Agreement**

On March 14, 2017, the District entered into a Utility Agreement with the State of California – Department of Transportation (the State) regarding the conversion of a portion of Highway 46 from 2-lane highway to 4-lane highway. This project is requiring the relocation of certain of the District's water pipelines. The agreement acknowledged the State's liability for the work to be performed by the District and established a mechanism for cost reimbursement by the State. As of June 30, 2020, the State owed the District \$186,717 for unreimbursed costs (None at June 30, 2019).

**Note 8 – Other Disclosures**

**Economic Dependency**

The District is dependent on user fees of customers in the district.

**Date of Management Evaluation**

Management has evaluated subsequent events through August 31, 2020, the date on which the financial statements were available to be issued.

**Installment Purchase Contract**

The District has pledged net revenues from water sales for the payment of the Certificates of Participation (COP's). Proceeds from the COP's originally provided financing for the acquisition of certain water system improvements. The COP'S are payable solely from net revenues and are payable through 2047. The total principal and interest remaining to be paid on the COP's is \$2,639,493. Principal and interest paid for the current year was \$155,264.

**Subsequent Event**

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to impact the District's customer base. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. As such, the financial impact of this crisis cannot be reasonably estimated at this time.

**ADDITIONAL REPORTING REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

This Page Intentionally Left Blank

# Albert & Associates, LLP

*Certified Public Accountants*

## **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**

The Board of Directors of the Lost Hills Utility District  
Lost Hills, 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 business-type activities of the Lost Hills Utility District, (the District) as of and for the years ending June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Lost Hills Utility District's basic financial statements, and have issued our report thereon dated August 31, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lost Hills Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lost Hills Utility 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 may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lost Hills Utility 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

AGRI-BUSINESS CENTER  
2235 Highway 46 • Suite 101 • Wasco, CA 93280  
Phone 661/758-1191 • 661/399-2236 • Fax 661/758-6195  
cpafirm@albert-cpa.com

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.

*Albert & Associates, LLP*

Wasco, California  
August 31, 2020

## **SUPPLEMENTAL INFORMATION**

**Lost Hills Utility District**  
**SCHEDULES OF NET POSITION**  
**BY DEPARTMENT**  
**Years Ended June 30, 2020 and 2019**

	2020			2019		
	Sewer	Water	Total	Sewer	Water	Total
<b>Assets:</b>						
Current Assets:						
Cash	\$ 1,059,195	\$ 1,400,374	\$ 2,459,569	\$ 1,019,602	\$ 1,529,417	\$ 2,549,019
Receivables, net	29,965	307,266	337,231	28,636	115,233	143,869
Prepaid Expenses	3,198	24,774	27,972	2,289	20,336	22,625
<b>Total Current Assets</b>	<b>1,092,358</b>	<b>1,732,414</b>	<b>2,824,772</b>	<b>1,050,527</b>	<b>1,664,986</b>	<b>2,715,513</b>
Noncurrent Assets:						
Capital Assets:						
Land	99,760	368,477	468,237	80,361	284,610	364,971
Depreciable Buildings, Property and Equipment, net of accumulated depreciation	425,143	5,281,551	5,706,694	473,165	5,456,666	5,929,831
<b>Total Noncurrent Assets</b>	<b>524,903</b>	<b>5,650,028</b>	<b>6,174,931</b>	<b>553,526</b>	<b>5,741,276</b>	<b>6,294,802</b>
<b>Total Assets</b>	<b>\$ 1,617,261</b>	<b>\$ 7,382,442</b>	<b>\$ 8,999,703</b>	<b>\$ 1,604,053</b>	<b>\$ 7,406,262</b>	<b>\$ 9,010,315</b>
<b>Liabilities:</b>						
Current Liabilities:						
Accounts Payable	\$ 38,828	\$ 203,847	\$ 242,675	\$ 6,540	\$ 34,333	\$ 40,873
Accrued Interest Payable	-	4,007	4,007	-	38,370	38,370
Accrued Expenses	550	2,201	2,751	-	-	-
Customer Deposits	-	12,500	12,500	-	9,200	9,200
Current Portion of Long-Term Debt	-	21,518	21,518	-	72,658	72,658
<b>Total Current Liabilities</b>	<b>39,378</b>	<b>244,073</b>	<b>283,451</b>	<b>6,540</b>	<b>154,561</b>	<b>161,101</b>
Noncurrent Liabilities:						
Accrued Compensated Absences	2,796	11,181	13,977	2,024	8,095	10,119
Bonds and Notes Payable	-	1,758,246	1,758,246	-	1,837,069	1,837,069
<b>Total Noncurrent Liabilities</b>	<b>2,796</b>	<b>1,769,427</b>	<b>1,772,223</b>	<b>2,024</b>	<b>1,845,164</b>	<b>1,847,188</b>
<b>Total Liabilities</b>	<b>42,174</b>	<b>2,013,500</b>	<b>2,055,674</b>	<b>8,564</b>	<b>1,999,725</b>	<b>2,008,289</b>
<b>Net Position:</b>						
Net Invested in Capital Assets, net of related debt	524,903	3,870,360	4,395,263	553,526	3,831,550	4,385,076
Restricted For:						
Debt Service (expendable)	-	157,582	157,582	-	155,264	155,264
Capital Projects (expendable)	603,857	518,384	1,122,241	581,251	690,450	1,271,701
Unrestricted	446,327	822,616	1,268,943	460,712	729,273	1,189,985
<b>Net Position</b>	<b>\$ 1,575,087</b>	<b>\$ 5,368,942</b>	<b>\$ 6,944,029</b>	<b>\$ 1,595,489</b>	<b>\$ 5,406,537</b>	<b>\$ 7,002,026</b>



**Lost Hills Utility District**  
**SCHEDULES OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET POSITION BY DEPARTMENT**  
**Years Ended June 30, 2020 and 2019**

	2020			2019		
	Sewer	Water	Total	Sewer	Water	Total
<b>Operating Revenues</b>						
Charges For Services	\$ 211,056	\$ 840,865	\$ 1,051,921	\$ 210,476	\$ 834,460	\$ 1,044,936
Other	11,537	205,863	217,400	13,767	167,532	181,299
<b>Total Operating Revenues</b>	<b>222,593</b>	<b>1,046,728</b>	<b>1,269,321</b>	<b>224,243</b>	<b>1,001,992</b>	<b>1,226,235</b>
<b>Operating Expenses</b>						
Vehicles	5,612	21,298	26,910	3,317	16,179	19,496
Outside Services	9,275	46,350	55,625	12,225	37,605	49,830
Professional Fees	38,692	77,743	116,435	34,595	88,326	122,921
Supplies	1,875	7,489	9,364	1,757	6,864	8,621
Director Fees	2,031	8,123	10,154	1,671	6,676	8,347
Depreciation	95,809	272,523	368,332	96,785	270,508	367,293
Repairs and Maintenance	23,312	191,011	214,323	28,190	88,183	116,373
Contract Labor	840	22,160	23,000	840	25,760	26,600
Utilities and Telephone	25,302	95,552	120,854	23,305	77,354	100,659
Insurance	11,752	47,012	58,764	9,906	41,334	51,240
Taxes	14,045	32,241	46,286	6,725	28,056	34,781
Payroll	52,846	229,675	282,521	56,417	225,670	282,087
Pension Expense	558	2,246	2,804	476	1,901	2,377
<b>Total Operating Expenses</b>	<b>281,949</b>	<b>1,053,423</b>	<b>1,335,372</b>	<b>276,209</b>	<b>914,416</b>	<b>1,190,625</b>
Operating Income (loss)	(59,356)	(6,695)	(66,051)	(51,966)	87,576	35,610
<b>Nonoperating Revenues (Expenses)</b>						
Interest Income	-	48,732	48,732	3,847	31,456	35,303
Connection Fees	38,953	10,579	49,532	12,951	16,653	29,604
Interest Expense	-	(97,922)	(97,922)	-	(101,283)	(101,283)
California State Project, net	-	7,712	7,712	-	(6,711)	(6,711)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>38,953</b>	<b>(30,899)</b>	<b>8,054</b>	<b>16,798</b>	<b>(59,885)</b>	<b>(43,087)</b>
Income Before Transfers	(20,403)	(37,594)	(57,997)	(35,168)	27,691	(7,477)
Transfers	-	-	-	-	-	-
Change in Net Position	(20,403)	(37,594)	(57,997)	(35,168)	27,691	(7,477)
Net Position - Beginning	1,595,490	5,406,536	7,002,026	1,630,658	5,378,845	7,009,503
Net Position - Ending	<b>\$ 1,575,087</b>	<b>\$ 5,368,942</b>	<b>\$ 6,944,029</b>	<b>\$ 1,595,490</b>	<b>\$ 5,406,536</b>	<b>\$ 7,002,026</b>

This Page Intentionally Left Blank