

LOST HILLS UTILITY DISTRICT

FINANCIAL STATEMENTS

For The Years Ending June 30, 2019 and 2018

Lost Hills Utility District

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June 30, 2019 and 2018

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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 and each major fund of Lost Hills Utility District, California, as of and for the years ending June 30, 2019 and 2018 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 respective financial position of the business-type activities and each major fund of Lost Hills Utility District, California, as of June 30, 2019 and 2018, and the respective 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.

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 audits were 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 November 5, 2019, 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 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 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
November 5, 2019

Lost Hills Utility District

STATEMENTS OF NET POSITION

PROPRIETARY FUND

June 30, 2019 and 2018

Assets:	2019	2018
Current Assets:		
Cash	\$ 2,549,019	\$ 2,287,918
Receivables, net	143,869	189,754
Prepaid Expenses	22,625	20,173
	<hr/>	<hr/>
Total Current Assets	2,715,513	2,497,845
Noncurrent Assets:		
Capital Assets:		
Land	364,971	364,971
Depreciable Buildings, Property and Equipment, net of accumulated depreciation	5,929,831	6,270,994
	<hr/>	<hr/>
Total Noncurrent Assets	6,294,802	6,635,965
	<hr/>	<hr/>
Total Assets	\$ 9,010,315	\$ 9,133,810
	<hr/>	<hr/>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 40,873	\$ 90,596
Accrued Interest Payable	38,370	39,601
Customer Deposits	9,200	10,700
Current Portion of Long-Term Debt	72,658	67,420
	<hr/>	<hr/>
Total Current Liabilities	161,101	208,317
Noncurrent Liabilities:		
Accrued Compensated Absences	10,119	6,263
Bonds and Notes Payable	1,837,069	1,909,727
	<hr/>	<hr/>
Total Noncurrent Liabilities	1,847,188	1,915,990
	<hr/>	<hr/>
Total Liabilities	2,008,289	2,124,307
	<hr/>	<hr/>
Net Position:		
Net Invested in Capital Assets, net of related debt	4,385,076	4,658,818
Restricted For:		
Debt Service (expendable)	22,345	22,634
Capital Projects (expendable)	1,271,701	1,229,309
Unrestricted	1,322,904	1,098,742
	<hr/>	<hr/>
Net Position	\$ 7,002,026	\$ 7,009,503
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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, 2019 and 2018

	2019	2018
Operating Revenues		
Charges For Services	\$ 1,044,936	\$ 1,042,744
Other Fees	181,299	215,464
Total Operating Revenues	1,226,235	1,258,208
Operating Expenses		
Vehicles	19,496	14,512
Outside Services	49,830	51,593
Professional Fees	122,921	169,276
Supplies	8,621	7,058
Director Fees	8,347	8,200
Depreciation	367,293	378,850
Repairs and Maintenance	116,373	136,843
Contract Labor	26,600	23,250
Utilities and Telephone	100,659	129,344
Insurance	51,240	49,099
Taxes	34,781	38,305
Payroll	282,087	204,693
Pension Expense	2,377	-
Total Operating Expenses	1,190,625	1,211,023
Operating Income (loss)	35,610	47,185
Nonoperating Revenues (Expenses)		
Grant income	-	102,856
Interest income	35,303	22,847
Connection fees	29,604	149,148
Interest expense	(101,283)	(104,959)
Grant expenditures	-	(29,411)
State of California net receipts (expenditures)	(6,711)	72,121
Total Nonoperating Revenues (Expenses)	(43,087)	212,602
Change in Net Position	(7,477)	259,787
Net Position - Beginning	7,009,503	6,749,716
Net Position - Ending	\$ 7,002,026	\$ 7,009,503

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from:		
Customers	\$ 1,270,620	\$ 1,200,234
Cash paid to:		
Suppliers	(591,043)	(748,143)
Employees	(280,608)	(204,280)
	398,969	247,811
Net cash provided (used) by operating activities		
Net cash provided from noncapital financing activities:		
Connection fees	29,604	149,148
Grants received	-	102,856
Caltrans receipts (expenditures)	(6,711)	72,121
Grant project expenditures	-	(29,411)
	22,893	294,714
Net cash provided (used) by noncapital financing activities		
Cash flows from capital and related financing activities:		
Purchase of capital assets	(26,130)	(107,689)
Principal paid on capital debt	(67,420)	(62,004)
Interest paid on capital debt	(102,514)	(106,079)
	(196,064)	(275,772)
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received	35,303	22,847
	35,303	22,847
Net cash provided (used) by investing activities		
Net Increase (decrease) in cash and cash equivalents	261,101	289,600
Cash and equivalents, Beginning of Year	2,287,918	1,998,318
Cash and equivalents, End of Year	\$ 2,549,019	\$ 2,287,918
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 35,610	\$ 47,185
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	367,293	378,850
(Increase) decrease in accounts receivable	45,885	(51,674)
(Increase) decrease in prepaid expenses	(2,452)	(3,455)
Increase (decrease) in accounts payable	(49,723)	(117,208)
Increase (decrease) in accrued wages and taxes	-	-
Increase (decrease) in customer deposits	(1,500)	(6,300)
Increase (decrease) in compensated Absences	3,856	413
	398,969	247,811
Net cash provided (Used) by Operating Activities	\$ 398,969	\$ 247,811

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

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

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 available for the Corporation. 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, 2019 and 2018

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

The District has only one fund for the year ended June 30, 2019 and 2018 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.

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

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

Cash and Investments

California Government Code authorizes the District to invest in the following types of investments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified % Of Portfolio</u>	<u>Minimum Quality Requirements</u>
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State Obligations	5 Years	None	None
CA Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Bankers' Acceptance	180 Days	40%	None
Commercial Paper - Select Agencies	270 Days	25%	A-1
Commercial Paper - Other Agencies	270 Days	40%	A-1
Negotiable Certificates of Deposit	5 Years	30%	None
CD Placement Service	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 Years	30%	A
Mutual and Money Market Fund	N/A	20%	Multiple
Collateralized Bank Deposits	5 Years	None	None
Mortgage Pass-Through Securities	5 Years	20%	AA
Bank/Time Deposits	5 Years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None

For purposes of the Statement of Cash Flows for the Proprietary fund types, 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.

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

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

Capital Assets and Depreciation

Capital assets are defined by the District as assets with an initial cost of more than \$1,000 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.

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. The statement of net position reports \$1,294,046 of net position restricted externally by grantors, creditors, or laws or regulations of other governments (\$1,251,943 at June 30, 2018).

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

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.

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.

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, 2019 and 2018:

	2019	2018
Cash on Hand	\$ 100	\$ 100
Demand Deposits	168,332	430,093
Monitoring Wells Project Bank Account	2,000	2,000
External Cash Pool - County of Kern	2,378,587	1,855,725
Total	\$ 2,549,019	\$ 2,287,918

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 2 – Cash and Investments, (continued)

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, 2018, the District had exposure to custodial credit risk as the demand deposit balance exceeded the FDIC coverage limitations. At times throughout the year, these balances also exceeded the federally insured limit.

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 \$2,378,587 and \$1,855,725 held by the County of Kern at June 30, 2019 and 2018 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, 2019 and 2018 consist of the following:

	2019	2018
Accounts Receivable, trade	\$ 136,849	\$ 134,035
Interest Receivable	7,020	5,110
Caltrans Reimbursement Receivable	-	50,609
Allowance for Doubtful accounts	None	None
	\$ 143,869	\$ 189,754

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 4 – Capital Assets

Capital asset activity for the years ended June 30, 2019 and 2018 is as follows:

	June 30, 2019				Balance June 30, 2019
	Balance June 30, 2018	Additions	Deletions	Transfers	
Casptial 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

	June 30, 2018				Balance June 30, 2018
	Balance June 30, 2017	Additions	Deletions	Transfers	
Casptial assets, not being depreciated					
Land	\$ 272,579	\$ 92,392	\$ -	\$ -	\$ 364,971
Construction in Progress	-	-	-	-	-
Total Capital assets, not being depreciated	272,579	92,392	-	-	364,971
Capital assets, being depreciated					
Vehicles	62,987	7,603	-	-	70,590
Office Building and Equipment	112,488	7,695	-	-	120,183
Waste Water System	2,921,135	-	-	-	2,921,135
Water System	9,708,700	-	-	-	9,708,700
Total Capital assets, being depreciated	12,805,310	15,298	-	-	12,820,608
Less accumulated depreciation for:					
Vehicles	22,446	13,991	-	-	36,437
Office Building and Equipment	65,712	4,131	-	-	69,843
Waste Water System	2,245,092	95,137	-	(27,855)	2,312,374
Water System	3,837,514	265,591	-	27,855	4,130,960
Total accumulated depreciation	6,170,764	378,850	-	-	6,549,614
Total capital assets, being depreciated, net	6,634,546	(363,552)	-	-	6,270,994
Governmental activities capital assets, net	\$ 6,907,125	\$ (271,160)	\$ -	\$ -	\$ 6,635,965

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

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:

	2019	2018
Sewer	\$ 96,785	\$ 98,761
Water	270,508	280,089
Total	\$ 367,293	\$ 378,850

Note 5 – Long-Term Liabilities

Outstanding debt balances at June 30, 2019 and 2018 are as follows:

	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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Certificates of Participation	\$ 1,940,700	\$ -	\$ (49,600)	\$ 1,891,100	\$ 54,500
Note Payable	115,500	-	(16,500)	99,000	16,500
Compensated Absences	5,850	413	-	6,263	-
Less Unamortized Discount	(17,048)	-	4,095	(12,953)	(3,580)
Total Long-Term Liabilities	\$ 2,045,002	\$ 413	\$ (62,005)	\$ 1,983,410	\$ 67,420

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 5 – Long-Term Liabilities, (continued)

	<u>2019</u>	<u>2018</u>
Certificates of Participation:		
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.	\$ 1,461,100	\$ 1,508,600
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.		
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.	375,500	382,500
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.		
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.		
Total Certificates of Participation	1,836,600	1,891,100

Note Payable:

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

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 5 – Long-Term Liabilities, (continued)

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.

	<u>2019</u>	<u>2018</u>
Principal	82,500	99,000
Unamortized Discounts	<u>(9,373)</u>	<u>(12,953)</u>
	73,127	86,047
Compensated Absences Payable	<u>10,119</u>	<u>6,263</u>
Total Long-Term Liabilities	<u>\$ 1,919,846</u>	<u>\$ 1,983,410</u>

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2019, are as follows:

	June 30, 2019				
	Year Ending June 30	Certificate of Participation		Note Payable	
		Principal	Interest	Principal	Interest
2020	59,200	96,064	16,500	-	
2021	64,900	92,682	16,500	-	
2022	70,700	88,981	16,500	-	
2023	77,500	84,929	16,500	-	
2024	84,900	80,486	16,500	-	
2025-2029	561,300	319,318	-	-	
2030-2034	689,100	128,664	-	-	
2035-2039	73,500	39,920	-	-	
2040-2046	155,500	27,112	-	-	
Total	<u>\$ 1,836,600</u>	<u>\$ 958,156</u>	<u>\$ 82,500</u>	<u>\$ -</u>	

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019 and 2018

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, 2018, the District matched up to 1% of the employee's deferral, which amounted to \$2,378 (\$1,447 for December 31, 2018). This amount was fully paid as of June 30, 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, 2019, the State owed the District \$6,712 for unreimbursed costs (\$36,310 at June 30, 2018).

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 November 5, 2019, the date on which the financial statements were available to be issued.

Excess of Expenditures over Appropriations

For the years ended June 30, 2019 and 2018, some expenditures exceeded appropriations. The over expenditures were funded from current tax revenue, programs & contributions.

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 \$2,794,756. Principal and interest paid for the current year was \$153,657.

**ADDITIONAL REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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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 and each major fund of Lost Hills Utility District, California, as of and for the years ending June 30, 2019 and 2018, 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 November 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Lost Hills Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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

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
November 5, 2019

SUPPLEMENTAL INFORMATION

Lost Hills Utility District
SCHEDULES OF NET POSITION
BY DEPARTMENT
Years Ended June 30, 2019 and 2018

	2019			2018		
	Sewer	Water	Total	Sewer	Water	Total
Assets:						
Current Assets:						
Cash	\$ 1,019,602	\$ 1,529,417	\$ 2,549,019	\$ 935,673	\$ 1,352,246	\$ 2,287,919
Receivables, net	28,636	115,233	143,869	30,276	159,478	189,754
Prepaid Expenses	2,289	20,336	22,625	2,289	17,883	20,172
Total Current Assets	1,050,527	1,664,986	2,715,513	968,238	1,529,607	2,497,845
Noncurrent Assets:						
Capital Assets:						
Land	80,361	284,610	364,971	80,361	284,609	364,970
Depreciable Buildings, Property and Equipment, net of accumulated depreciation	473,165	5,456,666	5,929,831	597,807	5,673,188	6,270,995
Total Noncurrent Assets	553,526	5,741,276	6,294,802	678,168	5,957,797	6,635,965
Total Assets	\$ 1,604,053	\$ 7,406,262	\$ 9,010,315	\$ 1,646,406	\$ 7,487,404	\$ 9,133,810
Liabilities:						
Current Liabilities:						
Accounts Payable	\$ 6,540	\$ 34,333	\$ 40,873	\$ 14,495	\$ 76,101	\$ 90,596
Accrued Interest Payable	-	38,370	38,370	-	39,601	39,601
Customer Deposits	-	9,200	9,200	-	10,700	10,700
Current Portion of Long-Term Debt	-	72,658	72,658	-	67,420	67,420
Total Current Liabilities	6,540	154,561	161,101	14,495	193,822	208,317
Noncurrent Liabilities:						
Accrued Compensated Absences	2,024	8,095	10,119	1,253	5,010	6,263
Bonds and Notes Payable	-	1,837,069	1,837,069	-	1,909,727	1,909,727
Total Noncurrent Liabilities	2,024	1,845,164	1,847,188	1,253	1,914,737	1,915,990
Total Liabilities	8,564	1,999,725	2,008,289	15,748	2,108,559	2,124,307
Net Position:						
Net Invested in Capital Assets, net of related debt	553,526	3,831,550	4,385,076	678,168	3,980,650	4,658,818
Restricted For:						
Debt Service (expendable)	-	22,345	22,345	-	22,634	22,634
Capital Projects (expendable)	581,251	690,450	1,271,701	562,156	667,153	1,229,309
Unrestricted	460,712	862,192	1,322,904	390,334	708,408	1,098,742
Net Position	\$ 1,595,489	\$ 5,406,537	\$ 7,002,026	\$ 1,630,658	\$ 5,378,845	\$ 7,009,503

Lost Hills Utility District
SCHEDULES OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION BY DEPARTMENT
Years Ended June 30, 2019 and 2018

	2019			2018		
	Sewer	Water	Total	Sewer	Water	Total
Operating Revenues						
Charges For Services	\$ 210,476	\$ 834,460	\$ 1,044,936	\$ 198,034	\$ 844,710	\$ 1,042,744
Other	13,767	167,532	181,299	9,684	205,779	215,463
Total Operating Revenues	224,243	1,001,992	1,226,235	207,718	1,050,489	1,258,207
Operating Expenses						
Vehicles	3,317	16,179	19,496	2,337	12,175	14,512
Outside Services	12,225	37,605	49,830	6,678	44,915	51,593
Professional Fees	34,595	88,326	122,921	55,524	113,752	169,276
Supplies	1,757	6,864	8,621	1,494	5,094	6,588
Director Fees	1,671	6,676	8,347	1,670	6,530	8,200
Depreciation	96,785	270,508	367,293	98,761	280,089	378,850
Repairs and Maintenance	28,190	88,183	116,373	11,353	125,337	136,690
Contract Labor	840	25,760	26,600	840	22,410	23,250
Utilities and Telephone	23,305	77,354	100,659	20,024	109,320	129,344
Insurance	9,906	41,334	51,240	10,855	38,867	49,722
Taxes	6,725	28,056	34,781	6,604	31,701	38,305
Payroll	56,417	225,670	282,087	39,190	165,503	204,693
Pension Expense	476	1,901	2,377	-	-	-
Total Operating Expenses	276,209	914,416	1,190,625	255,330	955,693	1,211,023
Operating Income (loss)	(51,966)	87,576	35,610	(47,612)	94,796	47,184
Nonoperating Revenues (Expenses)						
Grant Income	-	-	-	-	102,856	102,856
Interest Income	3,847	31,456	35,303	3,009	19,838	22,847
Connection Fees	12,951	16,653	29,604	49,662	99,486	149,148
Interest Expense	-	(101,283)	(101,283)	-	(104,959)	(104,959)
Project/Grant Expenditures	-	-	-	-	(29,411)	(29,411)
California State Project, net	-	(6,711)	(6,711)	-	72,122	72,122
Total Nonoperating Revenues (Expenses)	16,798	(59,885)	(43,087)	52,671	159,932	212,603
Income Before Transfers	(35,168)	27,691	(7,477)	5,059	254,728	259,787
Transfers	-	-	-	-	-	-
Change in Net Position	(35,168)	27,691	(7,477)	5,059	254,728	259,787
Net Position - Beginning	1,630,658	5,378,845	7,009,503	1,625,599	5,124,117	6,749,716
Net Position - Ending	\$ 1,595,490	\$ 5,406,536	\$ 7,002,026	\$ 1,630,658	\$ 5,378,845	\$ 7,009,503

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