



FINANCIAL REPORT
JUNE 30, 2023



GOLDEN HILLS COMMUNITY SERVICES DISTRICT

ORGANIZATION DATA

JUNE 30, 2023

ELECTED OFFICERS

John Buckley, President

Joe King, Vice-President

David Benham, Director

David Shaw, Director

Scott Wyatt, Director

ADMINISTRATION

Susan Wells, General Manager

Christopher Carlson, Assistant General Manager

Brian Barnett, Business Analyst

Joseph Hughes, Legal Counsel

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-3
------------------------------	-----

Management's Discussion and Analysis	4-6
Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10-27

REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Proportionate Share of the Net Pension Liability	28
Schedules of Pension Contributions - CalPERS	29
Schedules of Changes in the Net Pension Liability and Related Ratios	30
Schedules of Pension Contributions - PARS	31
Modified Approach for Water Storage Tanks Infrastructure Capital Assets	32-33

OTHER INDEPENDENT AUDITOR'S REPORT	
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>	34-35

SHANNON M. WEBSTER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Golden Hills Community Services District
Tehachapi, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Golden Hills Community Services District** (the District) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 GAAS 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 GAAS 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 management's discussion and analysis, schedules of proportionate share of the net pension liability, schedules of pension contributions – CalPERS, schedules of changes in the net pension liability and related ratios, schedules of pension contributions – PARS, and modified approach for water storage tanks infrastructure capital assets on pages 4-6 and 29-34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 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.

Daniells Phillips Vaughan & Bock

Bakersfield, California
October 31, 2023

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Golden Hills Community Services District**, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the District's financial statements, which follow this section.

Using This Annual Report

This annual report includes this management's discussion and analysis section, the independent auditor's report and the basic financial statements of the District. The basic financial statements consist of a series of financial statements. The statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows provide information about the activities of the District. The basic financial statements also include various footnote disclosures, which further describe District activities. In addition, this report presents certain required supplementary information.

Required Financial Statements

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

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

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

Financial Highlights

- Operating revenues for the year ended June 30, 2023 decreased by approximately \$54,100 as a result of less water being sold.
- Non-operating revenue for the year ended June 30, 2023 included approximately \$596,800 in property taxes and special assessments, approximately an \$11,900 increase from the prior year.
- Operating expenses for the year ended June 30, 2023 increased by approximately \$399,300 due to drainage work performed and payroll expenses.
- Capacity fees for the year ended June 30, 2023 decreased by approximately \$71,800 from the prior year.
- There was no capital grant or in-kind revenue for the year ended June 30, 2023.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

2023 and 2022 Condensed Financial Statements

	2023	2022	2021
Current assets	\$ 6,291,533	\$ 6,129,343	\$ 5,632,045
Capital assets, net	10,427,467	10,686,020	10,934,828
Restricted cash	2,603,312	2,346,157	2,146,412
Other	219,904	255,069	394,160
Total Assets	19,542,216	19,416,589	19,107,445
Deferred Outflows of Resources	449,796	343,259	416,366
Total Assets and Deferred Outflows of Resources	\$ 19,992,012	\$ 19,759,848	\$ 19,523,811
Current liabilities	\$ 767,048	\$ 777,224	\$ 856,609
Long-term liabilities	3,543,964	3,417,401	4,174,742
Total Liabilities	4,311,012	4,194,625	5,031,351
Deferred Inflows of Resources	64,251	313,799	176,025
Total Liabilities and Deferred Inflows of Resources	\$ 4,375,263	\$ 4,508,424	\$ 5,207,376
Net Position:			
Invested in capital assets, net of related debt	\$ 7,291,642	\$ 7,310,497	\$ 7,234,607
Restricted	2,603,312	2,346,157	2,146,412
Unrestricted	5,721,795	5,594,770	4,935,416
Total Net Position	\$ 15,616,749	\$ 15,251,424	\$ 14,316,435
Operating revenue	\$ 3,161,122	\$ 3,215,253	\$ 3,383,869
Operating expenses	3,495,854	3,096,583	2,651,919
Operating Income	(334,732)	118,670	731,950
Non-operating revenues (expenses)			
Property taxes and special assessments	596,827	584,976	588,346
Investment earnings	86,971	62,830	52,034
(Loss) on sale of assets	(14,317)	(10,958)	(26,234)
Interest (expense)	(135,448)	(146,610)	(160,195)
Income before capital contributions	199,301	608,908	1,185,901
Capital contributions			
Capacity fees	166,024	237,813	287,280
Capital grants	-	45,374	302,533
In-kind	-	42,894	326,886
Change in net position	\$ 365,325	\$ 934,989	\$ 2,102,600

Capital Assets and Long-Term Debt

The District's capital assets at June 30, 2023 were \$18.98 million; less \$8.55 million accumulated depreciation for a net book value of \$10.43 million. During the year ended June 30 2023, the District invested approximately \$227,400 in additions to capital assets, principally due to water projects that will improve the system.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District has eight water storage tanks at different locations that provide water to the District. The District elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its Steel Water Tanks System starting in August 2021. Under GASB Statement No. 34 eligible infrastructure capital is not required to be depreciated if all requirements are met.

The Tank Assessment Index (TAI) minimum established by the District is 5.0. The average TAI for fiscal years 2023 and 2022 are 8.9, well above the established index. The current lowest TAI is 8.01 and the highest is 10.0. There is no significant difference between the estimated and actual amounts to maintain and preserve infrastructure assets at target conditions during the current period.

At June 30, 2023, the District had approximately \$3.1 million in bonds and notes outstanding, a decrease of \$0.2 million from the prior year. More detailed information about the District's long-term debts is presented in Note 4 to the financial statements.

Economic Factors

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present and future.

Contacting the District's Financial Management

This financial report is designed to provide the Board, our customers, and creditors with a general overview of the District's accountability for the assets it receives and manages.

If you have questions about this report or need additional information, please contact the Golden Hills Community Services District Finance Department, P.O. Box 637, Tehachapi, California 93581, (661) 822-3064.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

STATEMENTS OF NET POSITION

June 30, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 4,224,257	\$ 4,018,383
Receivables:		
Water sales and services	446,408	462,956
Property taxes	-	3,444
Interest	-	13,675
Water-in-storage inventory	1,538,279	1,545,360
Prepaid expenses	82,589	85,525
Total current assets	6,291,533	6,129,343
Non-Current Assets		
Restricted cash (Note 2)	2,603,312	2,346,157
Capital assets (Note 3)	10,427,467	10,686,020
Net pension asset - PARS (Note 7)	219,904	255,069
Total non-current assets	13,250,683	13,287,246
Total assets	19,542,216	19,416,589
DEFERRED OUTFLOWS OF RESOURCES (Note 7)		
Related to net pension asset - PARS	78,921	104,938
Related to net pension liability - CalPERS	370,875	238,321
Total deferred outflows of resources	449,796	343,259
Total assets and deferred outflows of resources	\$ 19,992,012	\$ 19,759,848

See Notes to Financial Statements.

	2023	2022
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of long-term debt (Note 4)	\$ 236,000	\$ 232,000
Accounts payable	86,872	91,423
Accrued expenses	133,641	120,298
Customer deposits	240,860	224,460
Unearned revenue	69,675	109,043
Total current liabilities	767,048	777,224
Non-Current Liabilities		
Long-term debt (Note 4)	2,899,825	3,143,523
Net pension liability - CalPERS (Note 7)	644,139	273,878
Total non-current liabilities	3,543,964	3,417,401
Commitments and Contingencies (Note 6)		
Total liabilities	4,311,012	4,194,625
DEFERRED INFLOWS OF RESOURCES (Note 7)		
Related to net pension liability - CalPERS -		
Total deferred inflows of resources	64,251	313,799
Net Position		
Net investment in capital assets	7,291,642	7,310,497
Restricted (Note 5)	2,603,312	2,346,157
Unrestricted	5,721,795	5,594,770
Total net position	15,616,749	15,251,424
Total liabilities, deferred inflows of resources and net position	\$ 19,992,012	\$ 19,759,848

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenue		
Water sales		
Residential	\$ 2,012,345	\$ 2,042,392
Business and commercial	504,683	499,961
Other service charges	266,569	279,231
Water banking reimbursement	148,632	165,663
Rental income	130,126	126,225
Franchise fees	55,568	48,889
Standby service charges	41,199	49,892
Septic permits	2,000	3,000
	3,161,122	3,215,253
Operating Expenses		
General and administrative	2,453,195	2,098,288
Depreciation	471,635	464,015
Pumping	222,360	204,759
Treatment, transmission and distribution	196,665	170,178
Source of supply	119,680	140,674
Engineering and inspection	32,319	18,669
	3,495,854	3,096,583
Operating Income (Loss)	(334,732)	118,670
Non-operating Revenues and (Expenses)		
Property taxes	345,804	329,841
Special assessments for debt service	251,023	255,135
Investment earnings	86,971	62,830
(Loss) on sale of assets	(14,317)	(10,958)
Interest (expense)	(135,448)	(146,610)
Income before capital contributions	199,301	608,908
Capital Contributions		
Capacity fees	166,024	237,813
Capital grants	-	45,374
In-kind	-	42,894
Total capital contributions	166,024	326,081
Change in net position	365,325	934,989
Net Position, beginning,	15,251,424	14,316,435
Net Position, ending	\$ 15,616,749	\$ 15,251,424

See Notes to Financial Statements.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

STATEMENTS OF CASH FLOWS Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Receipts from users	\$ 3,141,746	\$ 3,154,435
Water purchases	(112,599)	(113,193)
Payments for administration services	(2,400,918)	(2,167,786)
Payments for suppliers for goods and services	(422,983)	(392,649)
Net cash provided by operating activities	205,246	480,807
Cash Flows From Capital and Related Financing Activities		
Principal payments on long-term debt	(239,698)	(324,698)
Collection of property taxes	345,804	329,841
Interest payments	(138,617)	(151,181)
Purchase of capital assets	(227,399)	(226,165)
Collection of special assessments	251,023	255,135
Net cash (used in) financing activities	(8,887)	(117,068)
Cash Flows From Investing Activities		
Capital contributions received	166,024	326,081
Investment income received	100,646	49,157
Net cash provided by investing activities	266,670	375,238
Net increase in cash and cash equivalents and restricted cash	463,029	738,977
Cash and cash equivalents and restricted cash		
Beginning	6,364,540	5,625,563
Ending	\$ 6,827,569	\$ 6,364,540

See Notes to Financial Statements.

	2023	2022
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (334,732)	\$ 118,670
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	471,635	464,015
Changes in:		
Deferred outflows of resources	(106,537)	73,107
Deferred inflows of resources	(249,548)	137,774
Net pension asset - PARS	35,165	139,091
Net pension liability - CalPERS	370,261	(417,643)
Changes in working capital components:		
(Increase) decrease in:		
Receivables	19,992	29,953
Water-in-storage inventory	7,081	27,481
Prepaid expenses	2,936	(1,827)
Increase (decrease) in:		
Accounts payable	(4,551)	(28,328)
Accrued expenses	16,512	4,610
Customer deposits	16,400	24,675
Unearned revenue	(39,368)	(90,771)
Net cash provided by operating activities	\$ 205,246	\$ 480,807

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of District and Summary of Significant Accounting Policies

Nature of activities: The **Golden Hills Community Services District** (the "District") is a single-purpose governmental enterprise which supplies water and related services to residents in the District's service area. The District was organized as a community services district and as such could supply additional services to residents in later years. The District is governed by its own five-member Board of Directors.

Reporting entity: The District has no oversight responsibility for any other governmental entity, nor is the District's operation a component unit of any other governmental entity. Therefore, the reporting entity consists only of District operations.

Basis of presentation: The District accounts for its operations as an enterprise fund, and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting in conformity with the Uniform System of Accounts for Special Districts as prescribed by the Controller of the State of California. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations.

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

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates with respect to the District's financial statements include the net pension asset – PARS and net pension liability – CalPERS.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and in banks and short-term, highly liquid investments with a maturity of three months or less, which includes money market funds and cash management pools in State and County Treasuries.

Water sales and services receivable: Management deems all water sales and services receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded. Historical experience indicates that uncollectible receivables are immaterial.

Water-in-storage inventory: Annually, the District determines the amount of water it will bank for inventory storage. Banked water inventory is accounted for using the first-in, first-out cost flow method and is valued using lower of average cost or net realizable value.

Capital assets: Plant and facilities are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 – 50 years. The District's policy is to capitalize assets greater than \$5,000 with a useful life of more than one year. Maintenance and repairs which do not increase the useful life of the assets are charged to expense as incurred. Major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Effective August 2021 the District began reporting its water storage tank assets system, using the modified approach. Accordingly, depreciation is not reported for this subsystem and all expenditures, except additions and improvements, made for the subsystem are expensed.

Compensated absences: District employees accumulate vacation, comp time and administrative leave hours for subsequent use or for payment upon termination or retirement. Accumulated compensated absence pay is accrued when earned by employees, and is included in accrued expenses on the statement of net position.

Unearned revenue: Unearned revenue represents amounts that have been received in advance for providing water.

Net position: The basic financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of 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 assets of the District, not restricted for any project or other purpose.

Subsequent events: The District has evaluated subsequent events through October 31, 2023, the date on which the financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

Authoritative pronouncements not yet adopted: The following statements issued by the GASB are effective for years ending after June 30, 2023 and management is evaluating the impact of the implementation of these statements on their financial statements.

- In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

- In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Note 2. Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of the following at June 30, 2023 and 2022:

	2023	2022
Cash in bank and on hand	\$ 610,914	\$ 635,741
Cash in County Treasury	3,613,343	3,382,642
	<u>\$ 4,224,257</u>	<u>\$ 4,018,383</u>

Restricted cash consists of the following at June 30, 2023 and 2022:

	2023	2022
Cash in bank	\$ 247,998	\$ 252,567
Cash in County Treasury	2,355,314	2,093,590
	<u>\$ 2,603,312</u>	<u>\$ 2,346,157</u>

Restricted cash is available for the following purposes:

	2023	2022
Road Improvements and other maintenance related costs	\$ 146,059	\$ 122,480
Bond debt service payments and related costs	492,867	505,012
Water wells, tanks, and other costs related to capacity fee charges	1,964,386	1,718,665
	<u>\$ 2,603,312</u>	<u>\$ 2,346,157</u>

The District maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The District believes it is not exposed to any significant credit risk on cash and cash equivalents.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Balances held in County Treasury are collateralized by pledged securities, in accordance with the California State Financial Code.

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2023 and 2022 is as follows:

	Balance June 30, 2022	Additions	Deletions	Reclass/ Transfers	Balance June 30, 2023
Land	\$ 2,273,559	\$ -	\$ -	\$ -	\$ 2,273,559
Water storage tanks	2,262,668	-	-	(29,347)	2,233,321
Land Improvements	369,730	-	-	-	369,730
Water rights	1,310,950	-	-	-	1,310,950
Transmission and distribution system	7,453,700	146,274	-	86,567	7,686,541
Buildings and structures	3,225,863	-	-	-	3,225,863
Santa Lucia tank yard	800,920	-	-	-	800,920
Transportation equipment	824,211	73,372	-	-	897,583
Other equipment	172,594	-	-	-	172,594
Construction in progress	71,497	7,753	14,317	(57,220)	7,713
	<u>18,765,692</u>	<u>227,399</u>	<u>14,317</u>	<u>-</u>	<u>18,978,774</u>
Less accumulated depreciation	8,079,672	471,635	-	-	8,551,307
	<u>\$ 10,686,020</u>	<u>\$ (244,236)</u>	<u>\$ 14,317</u>	<u>\$ -</u>	<u>\$ 10,427,467</u>

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

	Balance June 30, 2021	Additions	Deletions	Reclass/ Transfers	Balance June 30, 2022
Land	\$ 2,225,537	\$ 47,022	\$ -	\$ 1,000	\$ 2,273,559
Water storage tanks	-	-	-	2,262,668	2,262,668
Land Improvements	-	-	-	369,730	369,730
Water rights	1,310,950	-	-	-	1,310,950
Transmission and distribution system	9,074,213	92,475	23,068	(1,689,920)	7,453,700
Buildings and structures	3,225,863	-	-	-	3,225,863
Santa Lucia tank yard	800,920	-	-	-	800,920
Transportation equipment	824,211	-	-	-	824,211
Other equipment	172,594	-	-	-	172,594
Construction in progress	411,149	86,668	-	(426,320)	71,497
	<u>18,045,437</u>	<u>226,165</u>	<u>23,068</u>	<u>517,158</u>	<u>18,765,692</u>
Less accumulated depreciation	7,110,609	464,015	12,110	517,158	8,079,672
	<u>\$ 10,934,828</u>	<u>\$ (237,850)</u>	<u>\$ 10,958</u>	<u>\$ -</u>	<u>\$ 10,686,020</u>

Note 4. Long-term Debt

A schedule of changes in long-term debt for the years ended June 30, 2023 and 2022 is shown below:

	Balances June 30, 2022	Additions	Deletions	Balances June 30, 2023	Due Within One Year
Note Payable - Building	\$ 1,563,000	\$ -	\$ 82,000	\$ 1,481,000	\$ 81,000
Bonds Payable:					
2007 Road Bond	490,000	-	90,000	400,000	95,000
Discount on 2007 Road Bond	(9,119)	-	(2,065)	(7,054)	-
2016 Road Bond	1,335,000	-	70,000	1,265,000	60,000
Discount on 2016 Road Bond	(3,358)	-	(237)	(3,121)	-
	<u>\$ 3,375,523</u>	<u>\$ -</u>	<u>\$ 239,698</u>	<u>\$ 3,135,825</u>	<u>\$ 236,000</u>

	Balances June 30, 2021	Additions	Deletions	Balances June 30, 2022	Due Within One Year
Note Payable - Building	\$ 1,640,000	\$ -	\$ 77,000	\$ 1,563,000	\$ 82,000
Bonds Payable:					
2007 Road Bond	570,000	-	80,000	490,000	90,000
Discount on 2007 Road Bond	(11,184)	-	(2,065)	(9,119)	-
2016 Road Bond	1,505,000	-	170,000	1,335,000	60,000
Discount on 2016 Road Bond	(3,595)	-	(237)	(3,358)	-
	<u>\$ 3,700,221</u>	<u>\$ -</u>	<u>\$ 324,698</u>	<u>\$ 3,375,523</u>	<u>\$ 232,000</u>

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note Payable – Building

In 2016, the District issued a \$1,995,000 loan payable to refinance the 2006 bonds payable for the District's building. The loan is scheduled to mature in fiscal year 2036. The District achieved an economic gain of \$195,806 from the refinance of the bonds. Interest installments are payable each fiscal year at a rate of 3.75% on October 1st and April 1st, while principal payments are due on October 1st. Annual debt service requirements on the loan are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2024	\$ 54,019	\$ 81,000	\$ 135,019
2025	50,888	86,000	136,888
2026	47,569	91,000	138,569
2027	44,081	95,000	139,081
2028	40,425	100,000	140,425
2029-2033	139,706	593,000	732,706
2034-2036	24,844	435,000	459,844
Total	\$ 401,532	\$ 1,481,000	\$ 1,882,532

Bonds Payable – 2007 – Road

In 2007, the District issued \$1,490,000 of road construction bonds. The bonds are scheduled to mature in fiscal year 2027. Interest installments are payable each fiscal year at rates of 3.0% to 5.0% on September 2nd and February 2nd, while principal payments are due on September 2nd. The bonds unamortized discount amount at June 30, 2023 and 2022 was \$7,054 and \$9,119, respectively, that will be amortized over the remaining debt service of the bonds. Annual debt service requirements on the bonds are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2024	\$ 17,625	\$ 95,000	\$ 112,625
2025	12,750	100,000	112,750
2026	7,750	100,000	107,750
2027	2,625	105,000	107,625
Total	\$ 40,750	\$ 400,000	\$ 440,750

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Bonds Payable – 2016 – Road

In 2016, the District issued \$1,679,672 of road constructions bonds. The bonds are scheduled to mature in fiscal year 2038. Interest installments are payable each fiscal year at rates of 3.5% to 4.6% on September 2nd and February 2nd, while principal payments are due on September 2nd. The bonds unamortized discount amount at June 30, 2023 and 2022 was \$3,121 and \$3,358, respectively, that will be amortized over the remaining debt service of the bonds. Annual debt service requirements on the bonds are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2024	\$ 54,500	\$ 60,000	\$ 114,500
2025	51,688	65,000	116,688
2026	48,650	70,000	118,650
2027	45,500	70,000	115,500
2028	42,238	75,000	117,238
2029-2033	160,739	425,000	585,739
2034-2038	60,184	500,000	560,184
Total	\$ 463,499	\$ 1,265,000	\$ 1,728,499

Note 5. Restricted Net Position

Net position is restricted for the following specific purposes at June 30, 2023 and 2022:

	2023	2022
Capital projects	\$ 1,964,386	\$ 1,718,665
Debt service	638,926	627,492
	<u>\$ 2,603,312</u>	<u>\$ 2,346,157</u>

Note 6. Commitments and Contingencies

Water Lease: The District has a lease for approximately 450 acre-feet of annual water rights that expires in December 2025. The total lease cost for each of the years ended June 30, 2023 and 2022 was \$112,500.

Litigation: The District is involved in various litigation and subject to claims in the normal course of business. While it is not feasible to determine the outcome of any of these uncertainties, it is the opinion of management that their outcomes will not have a material adverse effect on the financial position, results of operations, or cash flows of the District.

Note 7. Employee Retirement Systems

A. General Information about the Pension Plans

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by an agency of the State of California, the California Public Employees' Retirement System (CalPERS). Additionally, other qualified employees, members of management, are covered under a single-employer plan, the Public Agency Retirement System (PARS), which is a supplemental defined benefit plan.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

The District implemented GASB Statements No. 68 and No. 71 during the year ended June 30, 2015. As a result, the District reports its net pension (asset) liability, pension expense and deferred inflows of resources and deferred outflows of resources for each of the above plans as follows:

	2023			
	Net Pension Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalPERS	\$ 644,139	\$ 370,875	\$ 64,251	\$ 114,039
PARS	(219,904)	78,921	-	61,182
	<u>\$ 424,235</u>	<u>\$ 449,796</u>	<u>\$ 64,251</u>	<u>\$ 175,221</u>

	2022			
	Net Pension Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalPERS	\$ 273,878	\$ 238,321	\$ 313,799	\$ 24,478
PARS	(255,069)	104,938	-	71,207
	<u>\$ 18,809</u>	<u>\$ 343,259</u>	<u>\$ 313,799</u>	<u>\$ 95,685</u>

The details of each plan are as follows:

California Public Employees' Retirement System (CalPERS)

Plan Description: The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. State statutes, as legislatively amended, within the Public Employees' Retirement Law, establish benefit provisions. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. A Classic CalPERS Miscellaneous members becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous and Safety Members are calculated as a percentage of their plan based the average final 36 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based the average 36 months compensation.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability is not offered to miscellaneous employees.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

The CalPERS Plan provisions and benefits in effect at June 30, 2023 and 2022, are summarized as follows:

	2023	
	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
Eligibility (Hire) date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% at 62
Benefit vesting schedule	5-years of service	5-years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 & up	52 & up
Monthly benefits, as a % of eligible compensation	2.0%	1.0% to 2.5%
Required employee contribution rates	6.93%	6.75%
Required employer contribution rates	8.63%	7.47%

	2022	
	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
Eligibility (Hire) date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% at 62
Benefit vesting schedule	5-years of service	5-years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 & up	52 & up
Monthly benefits, as a % of eligible compensation	2.0%	1.0% to 2.5%
Required employee contribution rates	6.92%	6.75%
Required employer contribution rates	8.65%	7.59%

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Contributions: Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the years ended June 30, 2023 and 2022, the contributions recognized as part of pension expense for the Plan were as follows:

	2023	2022
Contributions - employer	\$ 105,396	\$ 191,403
Contributions - employee (paid by employer)	\$ -	\$ -

Plan Description: Effective October 30, 2008, the District began participating in the Public Agency Retirement System (PARS) Retirement Enhancement Plan, which acts as both a common investment and administrative agent for the Plan, in accordance with PARS "Plan Provisions" previously established and approved by the Board of Directors in recognition of past salary concessions made by members of management. The PARS supplemental retirement benefit is recognized as an integral part of certain members of management's compensation package (a negotiated benefit provided in lieu of acceptance of previous salary increases offered to certain members of management). The District's defined benefit pension plan, the Golden Hills Community Services District Excess Benefit Plan, is single-employer plan which is a supplemental defined benefit plan for certain members of management. The District authorized the plan and has the authority to amend the plan. No new entrants are allowed to participate in the Plan. The Plan calls for the District to have the responsibility for establishing and carrying out a funding policy and method, consistent with the objectives of the Plan and, subject to the laws and Constitution of the State of California and applicable federal laws and regulations, and taking into consideration the Plan's short-term and long-term financial needs. The District shall have all power over, and responsibility for, the management, disposition, and investment of the Trust accounts.

Benefits Provided: The Plan provides benefits to participants based on the years of service after January 1, 2009 times a factor based on the participants age at retirement times the participants' final salary. Death benefit is equal to the employee's supplemental retirement benefit actuarially reduced as if the employee had retired on the date of death and elected a 100% joint-and-survivor annuity. Employees who terminate employment with the District prior to meeting the age requirement (55) will be eligible for a deferred retirement benefit from the plan payable at age 55.

Public Agency Retirement System (PARS)

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. Any benefit in payment status will increase by 2% per annum on the anniversary of the participant's date of retirement.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Employees Covered by Benefit Terms: At June 30, 2023 and 2022, the following employees were covered by the benefit terms:

	2023	2022
Active members	-	-
Transferred and terminated members	-	-
Retired members and beneficiaries	3	3
	3	3

Contributions: The pension benefits earned by the District's employees are funded currently by contributions to the pension trust. No employee contributions are required for participation, unless the actuarially required employer contribution exceeds 26% of pay. The actuarial methods and assumptions used are those adopted by the PARS Board of Administration. The employer contribution rate for years ended June 30, 2023 and 2022 for annual payroll is not applicable as the Plan only has retired members and beneficiaries.

For the years ended June 30, 2023 and 2022, the contributions recognized as part of pension expense for the Plan were as follows:

	2023	2022
Contributions - employer	\$ -	\$ 57,960
Contributions - employee (paid by employer)	\$ -	\$ -

B. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources related to Pensions

As of June 30, 2023 and 2022, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

Pension Plan	2023	2022
	Net Pension Liability (Asset)	Net Pension Liability (Asset)
CalPERS	\$ 644,139	\$ 273,878
PARS	(219,904)	(255,069)
Total Net Pension Liability	\$ 424,235	\$ 18,809

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

The District's net pension liability for CalPERS is measured as a proportionate share of the net pension liability. The CalPERS Plan was measured as of June 30, 2022 and June 30, 2021 for the years ended June 30, 2023 and 2022, respectively. For the CalPERS plan, the total liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022 and as of June 30, 2020, rolled forward to June 30, 2021 for years ended June 30, 2023 and 2022, respectively, using standard update procedures. The District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for CalPERS was as follows:

	2023
Proportion - June 30, 2022	0.00506%
Proportion - June 30, 2023	0.00558%
Change - Increase	<u>0.00052%</u>
	2022
Proportion - June 30, 2021	0.00636%
Proportion - June 30, 2022	0.00506%
Change - (Decrease)	<u>-0.00130%</u>

The District's net pension liability for PARS is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability was measured as of June 30, 2023 using an actuarial valuation as of January 1, 2023 rolled forward to June 30, 2023, and as of June 30, 2022 using an actuarial valuation as of January 1, 2022 rolled forward to June 30, 2022 for years ended June 30, 2023 and 2022, respectively, using standard update procedures.

The following shows the changes in the net pension liability during the years ended June 30, 2023 and 2022 for PARS:

	2023		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance - June 30, 2022	\$ 698,740	\$ 953,809	\$ (255,069)
Changes in the year:			
Service cost	-	-	-
Interest on total pension liability	43,862	-	43,862
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	37,615	-	37,615
Effect of assumptions changes or inputs	1,860	-	1,860
Benefit payments	(48,643)	(48,643)	-
Employer contributions	-	-	-
Member contributions	-	-	-
Net investment income	-	64,553	(64,553)
Administrative expenses	-	(16,381)	16,381
Total changes for the year	<u>34,694</u>	<u>(471)</u>	<u>35,165</u>
Balance - June 30, 2023	<u>\$ 733,434</u>	<u>\$ 953,338</u>	<u>\$ (219,904)</u>

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

	2022		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance - June 30, 2021	\$ 684,958	\$ 1,079,118	\$ (394,160)
Changes in the year:			
Service cost	-	-	-
Interest on total pension liability	43,569	-	43,569
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(29,787)	(29,787)	-
Employer contributions	-	57,960	(57,960)
Member contributions	-	-	-
Net investment income	-	(147,448)	147,448
Administrative expenses	-	(6,034)	6,034
Total changes for the year	13,782	(125,309)	139,091
Balance - June 30, 2022	\$ 698,740	\$ 953,809	\$ (255,069)

For the years ended June 30, 2023 and 2022, the District recognized pension expense of \$175,221 and \$95,685, respectively. At June 30, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 125,880	\$ -
Changes of assumptions	66,006	-
Differences between expected and actual experiences	12,936	8,664
Net differences between projected and actual earnings on plan investments	196,910	-
Change in employer's contribution	-	41,285
Differences between the employer's contribution and the employer's proportionate share of contributions	48,064	14,302
	<u>\$ 449,796</u>	<u>\$ 64,251</u>

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 105,396	\$ -
Changes of assumptions	-	-
Differences between expected and actual experiences	30,713	-
Net differences between projected and actual earnings on plan investments	104,938	239,081
Change in employer's contribution	-	74,718
Differences between the employer's contribution and the employer's proportionate share of contributions	102,212	-
	<u>\$ 343,259</u>	<u>\$ 313,799</u>

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

\$125,880 reported as deferred outflows of resources related to contributions subsequent to the measurement date at June 30, 2023 will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,		
2024	\$	71,776
2025		55,040
2026		61,610
2027		71,239
Total	\$	259,665

Actuarial Methods and Assumptions – The total pension liabilities in the June 30, 2023 and 2022, actuarial valuations were determined using the following actuarial assumptions:

At June 30, 2023 the mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001-2019. Pre-retirement and post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

At June 30, 2022, the mortality table used was developed based on CalPERS-specific data. The probabilities of mortality were based on the 2017 CalPERS Experience Study for the period from 1997-2015. Pre-retirement and post-retirement mortality rates included 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website

Discount Rate

CalPERS – The discount rate used to measure the total pension liability was 6.9% and 7.15% for the years ended June 30 2023 and 2022, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PARS – The discount rate used to measure the total pension liability was 6.5% for each of the years ended June 30, 2023 and 2022. The Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

The discount rate is a single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the sum of (1): the actuarial present value of benefit payments projected to be made in future periods where the plan assets are projected to be sufficient to meet benefit payments, calculated using the long-term expected rate of return and (2): the actuarial present value of projected benefit payments not included in (1), calculated using the municipal bonds rate.

Long-term Expected Rate of Return

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

For the year ended June 30, 2023, in determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds’ asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis Points.

The expected real rates of return by asset class for the year ended June 30, 2023 are as follows:

Asset Class (1)	Assumed Asset Allocation	Real Return (2)
Global Equity - Cap-weighted	30.00%	4.45%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%

(1) An expected inflation of 2.30% used for this period.
 (2) Figures are based on the 2021 Asset Liability Management study.

For the year ended June 30, 2022 in determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

The expected real rates of return by asset class for the year ended June 30, 2022 are as follows:

Asset Class (1)	Assumed Asset Allocation	Real Return Years 1 - 10 (2)	Real Return Years 11+ (3)
Public equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

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

PARS - The assumption for the long-term expected rate of return was selected by the District. Below is a projection of the 30-year average return derived by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation on the Plan's current asset allocation. The capital market assumptions as of June 30, 2023 and 2022 are as follows:

Asset Class	Assumed Asset Allocation	2023	
		Long-Term Expected Arithmetic Real Rate of Return	Long-Term Expected Geometric Real Rate of Return
US Cash	3.88%	0.51%	0.49%
US Core Fixed Income	47.95%	2.07%	1.93%
US Equity Market	36.80%	5.56%	3.90%
Foreign Developed Equity	6.05%	6.89%	5.07%
Emerging Markets Equity	3.72%	9.58%	6.18%
US REITs	1.60%	6.96%	4.74%

Asset Class	Assumed Asset Allocation	2022	
		Long-Term Expected Arithmetic Real Rate of Return	Long-Term Expected Geometric Real Rate of Return
US Cash	6.23%	0.21%	0.20%
US Core Fixed Income	46.31%	1.95%	1.84%
US Equity Market	37.82%	5.70%	4.10%
Foreign Developed Equity	4.76%	6.99%	5.25%
Emerging Markets Equity	3.10%	9.44%	5.97%
US REITs	1.78%	6.27%	4.11%

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Sensitivity to the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

– The following presents the District’s proportionate share of the net pension (asset) liability at June 30, 2023 and 2022 for each Plan, calculated using the discount rate for each plan, as well as the District’s proportionate share of the net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2023	
	CalPERS	PARS
1% Decrease Net Pension Liability (Asset)	5.90% \$ 1,033,033	5.50% \$ (140,792)
Current Discount Rate Net Pension Liability (Asset)	6.90% \$ 644,139	6.50% \$ (219,904)
1% Increase Net Pension Liability (Asset)	7.90% \$ 324,177	7.50% \$ (287,107)
	2022	
	CalPERS	PARS
1% Decrease Net Pension Liability (Asset)	6.15% \$ 676,650	5.50% \$ (184,342)
Current Discount Rate Net Pension Liability (Asset)	7.15% \$ 273,878	6.50% \$ (255,069)
1% Increase Net Pension Liability (Asset)	8.15% \$ (59,088)	7.50% \$ (315,088)

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

REQUIRED SUPPLEMENTARY INFORMATION

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY As of June 30, 2023

CalPERS - Last 10 Years *

Measurement Date:	2022	2021	2020	2019
Proportion of the net pension liability	0.00558%	0.00506%	0.00636%	0.00696%
Proportionate share of the net pension liability	\$644,139	\$273,878	\$691,521	\$713,613
Covered - employee payroll	\$694,677	\$673,762	\$661,532	\$584,121
Proportionate share of the net pension liability as percentage of covered-employee payroll	92.72%	40.65%	104.53%	122.17%
Plan's fiduciary net position	\$37,975,170,163	\$40,766,653,876	\$32,822,501,335	\$31,179,414,067
Plan fiduciary net position as a percentage of the total pension liability	76.68%	88.29%	75.10%	75.26%

*Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.00754%	0.00817%	0.00881%	0.01037%
\$726,776	\$810,368	\$762,637	\$712,246
\$414,201	\$525,639	\$666,692	\$688,215
175.46%	154.17%	114.39%	103.49%
\$29,308,589,559	\$27,244,095,376	\$24,705,532,291	\$24,907,305,871
75.26%	73.31%	74.06%	78.40%

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

SCHEDULES OF PENSION CONTRIBUTIONS - CALPERS

As of June 30, 2023

CalPERS - Last 10 Years*

Fiscal Year:	2023	2022	2021	2020	2019
Contractually required contribution (actuarially determined)	\$ 116,580	\$ 94,968	\$ 181,441	\$ 166,578	\$ 151,273
Contributions in relation to the actuary determined contributions	125,880	105,396	191,403	176,203	162,595
Contribution deficiency (excess)	<u>\$ (9,300)</u>	<u>\$ (10,428)</u>	<u>\$ (9,962)</u>	<u>\$ (9,625)</u>	<u>\$ (11,322)</u>
Covered-employee payroll	\$ 884,449	\$ 694,677	\$ 673,762	\$ 661,532	\$ 584,121
Contributions as a percentage of covered-employee payroll	14.23%	15.17%	28.41%	26.64%	27.84%

Notes to Schedule

Valuation date: June 30, 2021 June 30, 2020 June 30, 2019 June 30, 2018 June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost method	Entry Age Normal Cost Method
Amortization method	Varies by date established and source. May be level dollar or level percentage of pay and may include direct rate smoothing
Remaining amortization period	Differs by employer plan but not more than 28 years
Asset valuation method	Market value of assets
Inflation	2.50%
Salary increases	Varies by category, entry age and service
Investment rate of return	7.00%
Retirement age	50 years
Mortality	Derived using CalPERS Membership Data for all funds. The post retirement mortality rate includes 15 years of projected on-going mortality improvement using 90 percent of Scale MP-2016 published by the Society of Actuaries

*Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 129,810	\$ 131,626	\$ 129,783	\$ 109,039
<u>129,810</u>	<u>131,626</u>	<u>129,783</u>	<u>109,039</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 414,201	\$ 525,639	\$ 666,692	\$ 688,215
31.34%	25.04%	19.47%	15.84%
June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS As of June 30, 2023

PARS - Last 10 Years*

Measurement Period	2022-23	2021-22	2020-21	2019-20
Total Pension Liability				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest on total pension liability	43,862	43,569	45,645	44,623
Effect of plan changes	1,860	-	-	-
Effect of economic/demographics gains or losses	37,615	-	(48,080)	-
Benefit payments	(48,643)	(29,787)	(29,203)	(28,631)
Net change in total pension liability	34,694	13,782	(31,638)	15,992
Total pension liability - beginning	698,740	684,958	716,596	700,604
Total pension liability - ending (a)	<u>\$ 733,434</u>	<u>\$ 698,740</u>	<u>\$ 684,958</u>	<u>\$ 716,596</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ -	\$ 57,960	\$ 69,552	\$ 69,552
Net investment income	64,553	(147,448)	190,910	25,609
Administrative expenses	(16,381)	(6,034)	(4,875)	(4,141)
Benefit payments	(48,643)	(29,787)	(29,203)	(28,631)
Net change in plan fiduciary net position	(471)	(125,309)	226,384	62,389
Plan fiduciary net position - beginning	953,809	1,079,118	852,734	790,345
Plan fiduciary net position - ending (b)	<u>\$ 953,338</u>	<u>\$ 953,809</u>	<u>\$ 1,079,118</u>	<u>\$ 852,734</u>
Net pension (asset) liability (a) - (b)	<u>\$ (219,904)</u>	<u>\$ (255,069)</u>	<u>\$ (394,160)</u>	<u>\$ (136,138)</u>
Plan fiduciary net position as a percentage of the total pension (asset) liability	<u>129.98%</u>	<u>136.50%</u>	<u>157.55%</u>	<u>119.00%</u>
Covered - employee payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Net pension liability as a percentage of covered-employee payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to Schedule

Benefits changes: The figures above do not include any impact that may have resulted from plan changes which occurred after the June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two-Year Additional Service Credit (a.k.a. Golden Handshakes).

* Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

2018-19	2017-18	2016-17	2015-16
\$ -	\$ 40,833	\$ 32,529	\$ 58,870
45,988	44,566	44,318	38,137
4,336	-	62,416	-
(42,968)	-	(86,452)	-
(28,069)	(17,485)	-	-
(20,713)	67,914	52,811	97,007
721,317	653,403	600,592	503,585
<u>\$ 700,604</u>	<u>\$ 721,317</u>	<u>\$ 653,403</u>	<u>\$ 600,592</u>
\$ 75,348	\$ 63,756	\$ 69,552	\$ 69,552
46,276	38,626	54,056	1,501
(3,728)	(3,437)	(2,856)	(2,329)
(28,069)	(17,485)	-	-
89,827	81,460	120,752	68,724
700,518	619,058	498,306	429,582
<u>\$ 790,345</u>	<u>\$ 700,518</u>	<u>\$ 619,058</u>	<u>\$ 498,306</u>
<u>\$ (89,741)</u>	<u>\$ 20,799</u>	<u>\$ 34,345</u>	<u>\$ 102,286</u>
112.81%	97.12%	94.74%	82.97%
N/A	\$ 206,224	\$ 200,217	\$ 291,499
N/A	10.09%	17.15%	35.09%

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

SCHEDULES OF PENSION CONTRIBUTIONS - PARS

As of June 30, 2023

PARS - Last 10 Years*

Fiscal Year:	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 51,556	\$ 50,054	\$ 47,776	\$ 68,556	\$ 71,735
Contributions in relation to the actuary determined contributions	-	57,960	69,552	69,552	75,348	63,756	69,522	69,522	69,522
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (57,960)</u>	<u>\$ (69,552)</u>	<u>\$ (69,552)</u>	<u>\$ (23,792)</u>	<u>\$ (13,702)</u>	<u>\$ (21,746)</u>	<u>\$ (966)</u>	<u>\$ 2,213</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	\$ 206,224	\$ 200,217	\$ 291,499	\$ 278,826
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	30.92%	34.72%	23.85%	24.93%

Notes to Schedule

Valuation date: Jan. 1, 2023 Jan. 1, 2021

Methods and assumptions used to determine contribution rates:

Actuarial Cost method	Entry Age Normal
Amortization method	Level percent
Remaining amortization period	6 years
Asset valuation method	None
Inflation	2.30%
Salary increases	N/A
Investment rate of return	6.50%
Cost of living adjustments	2.00%
Retirement age	Graduated rates from age of 55 - 5.00% to age of 75 - 100%
Mortality	Pre-retirement: N/A; Post-Retirement: Consistent with Non-Industrial rates used to value the Miscellaneous Public Agency CalPERS Pension Plans after June 30, 2021.

*Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

**MODIFIED APPROACH FOR WATER STORAGE TANKS
INFRASTRUCTURE CAPITAL ASSETS**

In accordance with GASB Statement No. 34, the District is required to account for and report infrastructure capital assets. The District defines infrastructure as the basic physical assets including water storage tanks system, used by the District to conduct its business. Each major infrastructure system can be divided into subsystems.

The District has elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its Water Storage Tanks System. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The District manages the eligible infrastructure capital assets using an assets management system with characteristics of: (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amount to maintain and preserve at the established condition assessment level.

The District documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

In August 2021, the District commissioned a study of the physical condition assessment of the water storage tanks. Tank assessment components include tank structure, tank exterior coating, tank interior coating, tank dry interior, tank foundations, tank security and tank safety. The condition assessment will be performed at least every three years. Each tank was assigned a physical condition based on potential defects. A Tank Assessment Index (TAI), a nationally recognized index, was assigned to each tank and expressed in a continuous scale from 1.0 to 10.0, where 1.0 is assigned to the least acceptable physical condition and 10.0 is assigned to the physical characteristics of a new tank.

The following conditions were defined:

Condition	TAI Range
Like New	9.0-10.0
Very Good	7.0-8.9
Satisfactory	5.0-6.9
Sub Standard	3.0-4.9
Unacceptable	1.0-2.9

According to the District’s policy, a minimum average rating of 5.0 for all water storage tanks is considered a satisfactory rating. As of June 30, 2023 and 2022, the District’s water storage tanks were rated as follows:

Tank Number	Name	Size (Gallons)	Type	TAI	TAI
				FY 22-23	FY 21-22
1	Sage	1,000,000	Ground Storage	8.76	9.43
2	Santa Lucia #1	500,000	Ground Storage	9.67	8.68
3	Santa Lucia #2	1,000,000	Ground Storage	8.59	8.68
4	Santa Barbara	250,000	Ground Storage	8.67	8.68
5	Mountain	250,000	Ground Storage	10.00	10.00
6	Country Club #1	250,000	Ground Storage	10.00	8.68
7	Country Club #2	250,000	Ground Storage	10.00	8.68
8	Dovetail	250,000	Ground Storage	7.34	8.01

GOLDEN HILLS COMMUNITY SERVICES DISTRICT

MODIFIED APPROACH FOR WATER STORAGE TANKS INFRASTRUCTURE CAPITAL ASSETS

The District expensed \$292,788 and \$278,846 on the water storage tanks maintenance for the years ended June 30, 2023 and 2022, respectively. These expenses delayed deterioration of the water storage tanks. The District has estimated that the amount of annual expenses required to maintain the District's water storage tanks at the average TAI rating of 5.0 through the years ended June 30, 2023 and 2022 is a minimum of \$279,778 and \$278,846, respectively.

A schedule of actual expenses to maintain and preserve the water storage tanks at the current level at June 30, 2023 and 2022 are presented below:

Tank Number	Name	Maintenance Expense 2023	
		Budget	Actual
1	Sage	\$ 54,717	\$ 57,453
2	Santa Lucia #1	42,329	44,445
3	Santa Lucia #2	65,008	68,258
4	Santa Barbara	16,493	17,318
5	Mountain	9,403	8,894
6	Country Club #1	31,731	33,318
7	Country Club #2	31,760	33,348
8	Dovetail	28,337	29,754
		<u>\$ 279,778</u>	<u>\$ 292,788</u>

Tank Number	Name	Maintenance Expense 2022	
		Budget	Actual
1	Sage	\$ 54,717	\$ 54,717
2	Santa Lucia #1	42,329	42,329
3	Santa Lucia #2	65,008	65,008
4	Santa Barbara	16,493	16,493
5	Mountain	8,471	8,471
6	Country Club #1	31,731	31,731
7	Country Club #2	31,760	31,760
8	Dovetail	28,337	28,337
		<u>\$ 278,846</u>	<u>\$ 278,846</u>

OTHER INDEPENDENT AUDITOR'S REPORT

SHANNON M. WEBSTER

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

Board of Directors
Golden Hills Community Services District
Tehachapi, California

We have audited, 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, the financial statements of **Golden Hills Community Services 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 October 31, 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 procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Daniells Phillips Vaughan & Bock

Bakersfield, California
October 31, 2023