

**SEWERAGE COMMISSION
OROVILLE REGION**

**FINANCIAL STATEMENTS
With
Independent Auditor's Report Thereon**

JUNE 30, 2023

SEWERAGE COMMISSION – OROVILLE REGION

Financial Statements
June 30, 2023

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SEWERAGE COMMISSION – OROVILLE REGION

Financial Statements
For the Year Ended June 30, 2023

BOARD OF COMMISSIONERS

City of Oroville:

David Pittman (voting)
Scott Thomson (non-voting)

Lake Oroville Area Public Utility District:

Angie Mastelotto, Chair (voting)
Rich Salvucci (non-voting)

Thermalito Water and Sewer District:

Brad Taggart (voting)
Bruce Wristen, Vice-Chair (non-voting)

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Sewerage Commission – Oroville Region
Oroville, California 95965

Opinions

We have audited the accompanying financial statements of the Sewerage Commission – Oroville Region, as of and for the year ended June 30, 2023, and the related notes to financial statements which collectively comprise the Commission's basic financial statements, as listed in the table of contents. The prior year comparative information has been derived from the Commission's June 30, 2022 financial statements and, in our report dated October 12, 2022, we expressed an unmodified opinion on the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewerage Commission – Oroville Region as of June 30, 2023, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Commission, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

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 Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted 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 generally accepted 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 Commission’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 Commission’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 the supplementary information on pages 24-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission’s basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.


Other Matters

Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States 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 financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2023, on our consideration of the Commission’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with Government Auditing Standards in considering the Commission’s internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants


Sacramento, California
October 10, 2023

SEWERAGE COMMISSION - OROVILLE REGION
STATEMENT OF NET POSITION
JUNE 30, 2023
(with comparative data for June 30, 2022)

	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,688,407	\$ 12,024,491
Member entities receivable	1,266,002	1,022,390
Grant receivable	600,124	3,176,030
Interest receivable	128,846	27,849
Inventory	39,271	45,736
Prepaid expenses	13,913	11,175
Deposits	8,000	8,000
Restricted assets:		
Restricted cash and cash equivalents	4,813,019	3,497,359
Capital assets, net of accumulated depreciation	18,218,011	13,872,235
Total Assets	36,775,593	33,685,265
 DEFERRED OUTFLOWS OF RESOURCES		
CalPERS deferred pension outflows	1,006,446	516,795
Total Deferred Outflows of Resources	1,006,446	516,795
 LIABILITIES		
Accounts payable	77,793	71,864
Accounts payable - power	159,524	140,665
Accrued salaries and wages	41,584	49,500
Noncurrent liabilities:		
Due within one year	68,923	65,339
Due in more than one year	38,059	43,487
Net pension liability	2,272,456	1,423,214
Total Liabilities	2,658,339	1,794,069
 DEFERRED INFLOWS OF RESOURCES		
CalPERS deferred pension inflows	351,695	1,335,469
Total Deferred Inflows of Resources	351,695	1,335,469
 NET POSITION		
Net investment in capital assets	18,218,011	13,872,235
Restricted	4,813,019	3,497,359
Unrestricted	11,740,975	13,702,928
Total Net Position	\$ 34,772,005	\$ 31,072,522

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

SEWERAGE COMMISSION - OROVILLE REGION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023
(with comparative data for June 30, 2022)

	2023	2022
OPERATING REVENUES		
Domestic sewage treatment	\$ 4,426,987	\$ 3,975,088
Industrial sewage treatment	715	643
Septage dumpers' fees	138,154	118,379
	4,565,856	4,094,110
OPERATING EXPENSES		
Administration	669,322	610,748
Sewage treatment	2,099,523	2,952,846
Sewage collection	183,730	179,952
	2,952,575	3,743,546
Total Operating Revenues	4,565,856	4,094,110
Total Operating Expenses	2,952,575	3,743,546
Operating income	1,613,281	350,564
NON-OPERATING REVENUES		
Interest income	391,760	56,890
Revenue from other agencies:		
Regional facilities charges	989,062	2,612,451
Capital grants	289,153	3,176,030
Other non-operating revenues	172,222	12,340
Loss on disposal of assets	-	(2,487)
Other non-operating expenses	(66,966)	(19,556)
	1,775,231	5,835,668
Total Non-Operating Revenues	1,775,231	5,835,668
CHANGE IN NET POSITION	3,388,512	6,186,232
NET POSITION - BEGINNING OF YEAR	31,072,522	24,886,290
Prior period adjustment	310,971	-
NET POSITION - BEGINNING OF YEAR, restated	31,383,493	24,886,290
NET POSITION - END OF YEAR	\$ 34,772,005	\$ 31,072,522

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

SEWERAGE COMMISSION - OROVILLE REGION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(with comparative data for June 30, 2022)

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 4,322,244	\$ 4,740,041
Cash paid to suppliers	(769,499)	(1,850,210)
Cash paid to employees	(2,218,261)	(761,413)
Net cash provided by operating activities	1,334,484	2,128,418
Cash flows from non-capital financing activities:		
Other non-operating revenues	172,222	12,340
Other non-operating expenses	(66,966)	(19,556)
Net cash (used) provided by non-capital financing activities	105,256	(7,216)
Cash flows from capital and related financing activities:		
Cash received from regional facilities charges	989,062	2,612,451
Capital grants	3,176,030	-
Purchase/construction of property, plant, and equipment	(4,916,019)	(4,015,861)
Net cash (used) provided by capital and related financing activities	(750,927)	(1,403,410)
Cash flows from investing activities:		
Cash received from interest	290,763	40,291
Net cash provided by investing activities	290,763	40,291
Net increase in cash and cash equivalents	979,576	758,083
Cash and cash equivalents, beginning of year	15,521,850	14,763,767
Cash and cash equivalents, end of year	\$ 16,501,426	\$ 15,521,850
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 11,688,407	\$ 12,024,491
Restricted:		
Cash and cash equivalents	4,813,019	3,497,359
Total Cash and Cash Equivalents	\$ 16,501,426	\$ 15,521,850

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

SEWERAGE COMMISSION - OROVILLE REGION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2023

	2023	2022
Reconciliation of operating to net cash provided by operating activities:		
Operating income	\$ 1,613,281	\$ 350,564
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	570,243	685,248
Changes in assets and liabilities:		
Accounts receivable	(243,612)	645,931
Prepaid expenses	(2,738)	(7,464)
Inventory	6,465	(25,918)
Accounts payable	24,788	(138,127)
Accrued salaries and benefits	(7,916)	10,821
Compensated absences	(1,844)	(5,364)
Other postemployment benefits asset/liability	-	(7,637)
Net pension liability and related inflows/outflows	(624,183)	620,364
	\$ 1,334,484	\$ 2,128,418

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

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 1: Summary of Significant Accounting Policies

The Sewerage Commission – Oroville Region (Commission) was formed under a joint powers agreement in March 1973, for the construction and operation of a regional wastewater facility. The participating members include the City of Oroville, Thermalito Water and Sewer District, and Lake Oroville Area Public Utility District.

A. Reporting Entity

The Commission's financial statements include all transactions of the Commission for which the Commission is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the Commission or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Commission. Based on these criteria, the Commission has determined that there are no component units which come under the criteria for inclusion. The Commission is not a component unit of any other government entity.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The transactions of the Commission are accounted for on a flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Commission is better or worse off economically as a result of events and transactions of the period.

The Commission uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The activities of the Commission are accounted for within a single proprietary (enterprise) fund. An enterprise fund is used to account for activities similar to those found in private business enterprises, where the determination of net income is necessary or useful to sound financial management and services are provided to outside parties.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Commission are charges for services. Operating expenses for the Commission include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Commission's financial statements are presented in conformance with Generally Accepted Accounting Principles (GAAP). The Commission applies all relevant Governmental Accounting Standard Board (GASB) pronouncements.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 1: Summary of Significant Accounting Policies - continued

C. Budget Basis of Accounting

It is the Commission's policy to prepare and adopt an annual budget to plan and monitor its revenues and cost of operations. The budget is primarily prepared using a basis consistent with generally accepted accounting principles, except for the following items:

- Depreciation is not budgeted as an expense
- Capital outlays are budgeted as a current expense, and
- Certain non-operating revenues are not budgeted.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, demand deposits in the Local Agency Investment Fund (LAIF), or other highly liquid investments with a maturity of three months or less.

F. Accounts Receivable

Doubtful accounts are written off as deemed appropriate by management. Uncollectible amounts have historically been immaterial and this method of reporting does not result in a material difference from the allowance method.

G. Inventory and Prepaid Items

Inventory is valued at cost using the first-in, first-out method and consists of expendable supplies and fuel. The cost of such inventory is recorded as an expense when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items will be recorded as an expense when consumed rather than when purchased.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 1: Summary of Significant Accounting Policies - continued

H. Capital Assets

All capital assets of the Commission are recorded at historical cost. Generally, it is the Commission's policy to capitalize individual items costing more than \$2,500 with an estimated useful life in excess of two years. Costs incurred to repair or maintain facilities and equipment are not capitalized unless they significantly improve or extend the life of the repaired item.

The Commission has provided for depreciation on the collection system, treatment plant, and outfall system using the straight-line method based on useful lives of fifty years. Depreciation on all other assets has been provided on the straight-line method based on useful lives of three to thirty years. The costs of normal maintenance and repairs that do not add to the value of an asset, or materially extend asset lives, are not capitalized.

Construction in Progress – Expenses incurred for construction projects and major repairs and betterments are accumulated and, when projects are completed, are capitalized and subsequently depreciated over the project's estimated useful life.

The Commission did not incur any construction period interest expense for either year.

I. Accumulated Compensated Absences

The employees of the Commission may accumulate vacation, which is based upon length of service, up to a maximum of 52 days. Supervisory employees receive 40 hours annually of compensatory time with no carryover of unused amounts. The Manager/Superintendents accrued administration time is fully vested, but may not exceed 200 hours. Accumulated sick-leave does not vest with the employee, however, upon leaving the Commission in good standing; an employee may convert 50% of accumulated sick-leave to continue health insurance coverage. This liability has been accrued in the financial statements.

J. Net Position Flow Assumption

Sometimes the Commission will fund outlays for a particular purpose from both restricted (e.g., Wastewater Capital Reserve Fund) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

The Commission restricts assets to fund the Wastewater Capital Reserve Fund (WCRF) and the Regulatory and Capital Account Fund (R&CA) through allocations of investment earnings, a portion of sewer service charges, and proceeds from the sale of capital assets. Disbursements from the WCRF and R&CA are restricted to approved replacements of property, plant, and equipment.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 1: Summary of Significant Accounting Policies - continued

K. Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are fees and charges for wastewater treatment services. Nearly all of the Commission's operating revenues are collected and remitted by its three member entities. Operating expenses include the costs associated with the conveyance and treatment of the wastewater, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

L. Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 2: Cash and Investments

Cash and investments as of June 30, 2023 and 2022, are classified in the accompanying financial statements as follows:

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash and cash equivalents	\$ 11,688,407	\$ 12,024,491
Restricted Assets:		
Cash and cash equivalents	4,813,019	3,497,359
Total Cash and Cash Equivalents	<u>\$ 16,501,426</u>	<u>\$ 15,521,850</u>

Cash and investments as of June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Cash on hand	\$ 161	\$ 161
Deposits with financial institutions	396,305	77,492
LAIF	16,104,960	15,444,197
Total Cash and Cash Equivalents	<u>\$ 16,501,426</u>	<u>\$ 15,521,850</u>

Investment Policies – The Commission may invest in the following types of investments:

- Passbook savings account demand deposits
- Money market accounts
- Certificates of deposit with commercial banks and/or savings and loan companies
- Local Agency Investment Fund (State Pool) demand deposits
- Mutual funds

The Commission has, in practice, limited deposits and investments to insured and/or collateralized demand deposit accounts, the State Treasurer’s Local Agency Investment Fund (LAIF), and certificates of deposit. The Commission does not enter into reverse repurchase agreements.

Restricted Cash and Cash Equivalents

Cash and investments that are restricted by legal or contractual requirements at June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Wastewater Capital Reserve Fund	\$ 812,807	\$ 830,996
Regulatory and Capital Account Fund	4,000,212	2,666,363
Total Restricted Cash and Cash Equivalents	<u>\$ 4,813,019</u>	<u>\$ 3,497,359</u>

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 2: Cash and Investments - continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization. The Commission does not hold direct investments; therefore, there is no concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. For 2023 and 2022, none of the Commission's deposits with financial institutions were in excess of federal depository insurance limits and were held in collateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool (LAIF)

The Commission is a voluntary participant in LAIF. LAIF is a special fund of the California State Treasury through which local governments may pool investments. The participating entity may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the Pooled Money Investment Board whose members are the California State Treasurer, California Director of Finance, and the California State Controller. Fair values of the fund are determined monthly. For the purpose of these financial statements, the fair value of amounts in LAIF are deemed equivalent to the dollars held in the accompanying financial statements.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 3: Capital Assets

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

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2023</u>
Nondepreciable Capital Assets:				
Land	\$ 384,532	\$ -	\$ -	\$ 384,532
Property rights	26,829	-	-	26,829
Construction in progress	<u>6,310,503</u>	<u>4,782,483</u>	-	<u>11,092,986</u>
Total Nondepreciable Capital Assets	<u>6,721,864</u>	<u>4,782,483</u>	<u>-</u>	<u>11,504,347</u>
Depreciable Capital Assets:				
Collection facilities	3,183,448	-	-	3,183,448
Treatment facilities	10,456,804	-	-	10,456,804
Disposal facilities	2,450,093	-	-	2,450,093
Buildings and structures	735,816	10,848	-	746,664
Vehicles and equipment	4,893,967	122,688	(23,473)	4,993,182
Grounds and landscaping	27,128	-	-	27,128
Capacity and management plans	<u>691,359</u>	<u>-</u>	<u>-</u>	<u>691,359</u>
Total Depreciable Capital Assets	<u>22,438,615</u>	<u>133,536</u>	<u>(23,473)</u>	<u>22,548,678</u>
Less: Accumulated Depreciation:				
Collection facilities	(1,793,006)	(89,534)	-	(1,882,540)
Treatment facilities	(7,526,688)	(253,958)	-	(7,780,646)
Disposal facilities	(1,986,619)	(45,814)	-	(2,032,433)
Buildings and structures	(352,910)	(14,732)	23,473	(344,169)
Vehicles and equipment	(2,958,640)	(150,986)	-	(3,109,626)
Grounds and landscaping	(24,640)	(2,488)	-	(27,128)
Capacity and management plans	<u>(645,741)</u>	<u>(12,731)</u>	<u>-</u>	<u>(658,472)</u>
Total Accumulated Depreciation	<u>(15,288,244)</u>	<u>(570,243)</u>	<u>23,473</u>	<u>(15,835,014)</u>
Depreciable Capital Assets, Net	<u>7,150,371</u>	<u>(436,707)</u>	<u>-</u>	<u>6,713,664</u>
Total Capital Assets, Net	<u>\$ 13,872,235</u>	<u>\$4,345,776</u>	<u>\$ -</u>	<u>\$ 18,218,011</u>

Depreciation expense for the year ended June 30, 2023 was \$570,243.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 3: Capital Assets - continued

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

	Balance July 1, 2021	Additions	Retirements/ Transfers	Balance June 30, 2022
Nondepreciable Capital Assets:				
Land	\$ 384,532	\$ -	\$ -	\$ 384,532
Property rights	26,829	-	-	26,829
Construction in progress	3,637,765	3,976,676	(1,303,938)	6,310,503
Total Nondepreciable Capital Assets	<u>4,049,126</u>	<u>3,976,676</u>	<u>(1,303,938)</u>	<u>6,721,864</u>
Depreciable Capital Assets:				
Collection facilities	3,183,448	-	-	3,183,448
Treatment facilities	9,536,608	-	920,196	10,456,804
Disposal facilities	2,450,093	-	-	2,450,093
Buildings and structures	735,816	-	-	735,816
Vehicles and equipment	4,478,394	39,186	376,387	4,893,967
Grounds and landscaping	33,615	-	(6,487)	27,128
Capacity and management plans	691,359	-	-	691,359
Total Depreciable Capital Assets	<u>21,109,333</u>	<u>39,186</u>	<u>1,290,096</u>	<u>22,438,615</u>
Less: Accumulated Depreciation:				
Collection facilities	(1,703,471)	(89,535)	-	(1,793,006)
Treatment facilities	(7,221,934)	(304,754)	-	(7,526,688)
Disposal facilities	(1,937,720)	(48,899)	-	(1,986,619)
Buildings and structures	(338,178)	(14,732)	-	(352,910)
Vehicles and equipment	(2,784,814)	(178,693)	4,867	(2,958,640)
Grounds and landscaping	(31,127)	-	6,487	(24,640)
Capacity and management plans	(597,106)	(48,635)	-	(645,741)
Total Accumulated Depreciation	<u>(14,614,350)</u>	<u>(685,248)</u>	<u>11,354</u>	<u>(15,288,244)</u>
Depreciable Capital Assets, Net	<u>6,494,983</u>	<u>(646,062)</u>	<u>1,301,450</u>	<u>7,150,371</u>
Total Capital Assets, Net	<u>\$ 10,544,109</u>	<u>\$3,330,614</u>	<u>\$ (2,488)</u>	<u>\$ 13,872,235</u>

Depreciation expense for the year ended June 30, 2022 was \$685,248.

Note 4: Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due Within One Year
Compensated absences	\$ 108,826	\$ 152,828	\$ (154,672)	\$ 106,982	\$ 68,923
Net pension liability	1,423,214	-	849,242	2,272,456	-
Total Long-Term Liabilities	<u>\$ 1,532,040</u>	<u>\$ 152,828</u>	<u>\$ 694,570</u>	<u>\$ 2,379,438</u>	<u>\$ 68,923</u>

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 4: Changes in Long-Term Liabilities - continued

Long-term liability activity for the fiscal year ended June 30, 2022, was as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022	Due Within One Year
Compensated absences	\$ 114,190	\$ 115,857	\$ (121,221)	\$ 108,826	\$ 65,339
Other post-employment benefits - insurance	7,637	-	(7,637)	-	-
Net pension liability	2,067,986	-	(644,772)	1,423,214	-
Total Long-Term Liabilities	\$ 2,189,813	\$ 115,857	\$ (773,630)	\$ 1,532,040	\$ 65,339

Note 5: Joint Powers Agreement

Pursuant to California Government Code, Section 6500, et seq., and Section 990, et. seq., Sewerage Commission – Oroville Region joined the Special District Risk Management Authority (referred hereafter as “Authority”) under a joint powers agreement. The Authority is comprised of various special districts within the State of California and provides its member districts general liability, automotive liability, and property damage insurance, and errors and omissions risk financing.

Summary financial information for the Authority as of and for the fiscal year ended June 30, 2021 (latest available), is presented below:

Cash and investments	\$118,409,742
Other assets	21,451,172
Deferred outflows of resources	606,052
Total assets and deferred outflows of resources	\$140,466,966
Total liabilities	\$ 73,886,665
Deferred inflows of resources	237,014
Net position	66,343,287
Total liabilities, deferred inflows of resources, and net position	\$140,466,966
Total revenues	\$ 83,706,987
Total expenses	78,306,334
Changes in net position	\$ 5,400,653

Note 6: Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Commission’s cost-sharing multiple employer defined benefit pension plan (Plan) which is administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and local government resolution.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 6: Defined Benefit Pension Plan – continued

Plan Description - continued

CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

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. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	<u>Prior to 1/1/2013</u>	<u>On or After 1/1/2013</u>
Hire date		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefits payments	Monthly for life	Monthly for life
Monthly benefits as % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contributions	8.0%	6.75%
Required employer contribution rates	12.21%	7.47%

Funding Policy

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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 Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2023, the contributions recognized as part of pension expense for the Plan was as follows:

Contributions - employer	\$ 285,638
Contributions - employee (paid by employer)	63,021

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 6: Defined Benefit Pension Plan – continued

Funding Policy – continued

As of June 30, 2023, the Commission reported net pension liability of \$2,272,456 for its share of the net pension liability of the Plan. The Commission’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022, and the total pension liability for each 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, using standard update procedures. The Commission’s proportion of the net pension liability was based on a projection of the Commission’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Commission’s proportionate share of the net pension liability for the Plan as of June 30, 2022 and 2023, were as follows:

Proportion - June 30, 2022	0.07495%
Proportion - June 30, 2023	0.04856%
Change - Increase (Decrease)	-0.02639%

For the fiscal year ended June 30, 2023, the Commission recognized pension credit of \$309,244 in its financial statements. Pension expense/credit represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

Actuarial Assumptions

The total pension liabilities in the June 30, 2022, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	6.90%
Inflation	2.50%
Payroll growth	2.75%
Projected salary increase ⁽¹⁾	Varies by Entry Age and Service
Investment rate of return ⁽²⁾	7.00%
Mortality ⁽³⁾	CalPERS Table

⁽¹⁾ Depending on age, service, and type of employment.

⁽²⁾ Net of pension plan investment expenses, including inflation.

⁽³⁾ 20 years of mortality improvement – Society of Actuaries Scale AA.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 6: Defined Benefit Pension Plan – continued

Actuarial Assumptions - continued

The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2016 experience study report.

The long-term expected rate of return on pension plan investments (7.15%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Commission will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 6: Defined Benefit Pension Plan – continued

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

The following presents what the Commission’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.90%) or 1 percentage point higher (7.90%) than the current rate:

	<u>1% Decrease</u> <u>5.90%</u>	<u>Discount Rate</u> <u>6.90%</u>	<u>1% Increase</u> <u>7.90%</u>
District's proportionate share of the net pension plan liability	\$ 3,250,244	\$ 2,272,456	\$ 1,467,979

Detailed information about the pension fund’s fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.

Deferred Inflows and Outflows

At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred</u> <u>Outflows</u> <u>of Resources</u>	<u>Deferred</u> <u>Inflows</u> <u>of Resources</u>
Change of assumptions	\$ 232,860	\$ -
Differences between expected and actual experience	15,071	-
Differences between projected and actual investment earnings	416,253	-
Differences between employer's contributions and proportionate share of contributions	52,911	-
Change in employer's proportion	-	351,695
Pension contributions made subsequent to measurement date	289,351	-
Total	<u>\$ 1,006,446</u>	<u>\$ 351,695</u>

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 6: Defined Benefit Pension Plan – continued

As of June 30, 2023, the Commission reported \$289,351 as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year-end June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2024	\$ 62,046
2025	36,594
2026	12,165
2027	254,595
Total	<u>\$ 365,400</u>

Note 7: Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Commission provides property, comprehensive and collision, and workers’ compensation insurance through the Special District Risk Management Authority (SDRMA), a public entity risk pool currently operating as an intergovernmental risk sharing joint powers authority for special districts and joint powers authorities throughout California. The Commission pays annual premiums to SDRMA for liability, property, comprehensive and collision, and workers’ compensation insurance.

Through SDRMA, the Commission has a total of \$10,000,000 in general and auto liability, public officials’ and employees’ errors and omissions, and employment practices coverage. The Commission’s deductible is \$500 (\$1,000 auto) and 50% co-insurance costs expended by SDRMA in excess of \$10,000, up to \$50,000 for employment related claims (may be waived if certain criteria are met).

SDRMA provides the Commission \$400,000 per loss in public employee dishonesty, forgery or alteration, theft, and disappearance and destruction coverage. SDRMA also provides property loss coverage of \$1 billion (\$1,000 deductible); boiler and machinery coverage of \$100 million (\$1,000 deductible); comprehensive and collision coverage for selected vehicles; and \$500,000 per occurrence of officials’ personal liability coverage (\$500 deductible).

The Commission’s workers’ compensation and employer’s liability coverages are also provided through SDRMA. The Commission is provided coverage at the statutory limits per occurrence for workers’ compensation and \$5 million for employer’s liability coverage.

SEWERAGE COMMISSION – OROVILLE REGION

Notes to the Financial Statements
June 30, 2023

Note 7: Risk Management – continued

During the fiscal years ended June 30, 2023 and 2022, the Commission paid SDRMA \$100,146 and \$77,617 for property/liability coverage and \$47,264 and \$36,089 for workers' compensation coverage, respectively. Under the terms of the joint powers agreement, SDRMA members are subject to dividends and/or assessments. However, no dividends were declared, nor any assessments levied, for the years ended June 30, 2023 and 2022.

The Commission continues to carry commercial insurance for all other risks of loss, such as employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8: Accounts Payable – Power

The Commission has accrued a liability for estimated electric usage of \$159,524 and \$140,665 as of June 30, 2023 and 2022, respectively. The liability is based on the Pacific Gas & Electric Company's estimated cumulative charges and credits for electricity as of June 30, 2023 and 2022. Pacific Gas & Electric Company has an annual billing cycle for customers that self-generate electricity. Each February, there will be a "true-up" of charges and credits for actual electricity consumed and the liability will be adjusted at that time.

Note 9: Prior Period Adjustment

During the year, a prior period adjustment of \$310,971 was recorded to include grant revenue that was earned in the prior year.

Note 10: Subsequent Events

Management has evaluated subsequent events through October 10, 2023, the date which the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SEWERAGE COMMISSION - OROVILLE REGION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2023

Last 10 Fiscal Years*:

Measurement date	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Proportion of the collective net pension liability	0.01969%	0.05447%	0.04979%	0.04902%	0.05002%
Proportionate share of the net pension liability	\$ 1,225,137	\$ 1,357,329	\$ 1,932,214	\$ 1,932,214	\$ 1,885,217
Covered employee payroll	\$ 572,157	\$ 597,910	\$ 646,734	\$ 589,435	\$ 693,706
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	214.13%	227.01%	298.76%	327.81%	271.76%
Plan Fiduciary net position	\$ 3,885,566	\$ 3,259,440	\$ 3,256,288	\$ 3,617,520	\$ 3,888,179
Plan Fiduciary net position as a percentage of the total pension liability	76.03%	68.56%	65.31%	65.18%	70.06%
Valuation date	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017

Measurement date	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Proportion of the collective net pension liability	0.04949%	0.04903%	0.07495%	0.04857%
Proportionate share of the net pension liability	\$ 1,981,952	\$ 2,067,986	\$ 1,423,214	\$ 2,272,456
Covered employee payroll	\$ 615,293	\$ 681,315	\$ 620,694	\$ 746,869
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	322.12%	303.53%	229.29%	304.26%
Plan Fiduciary net position	\$ 3,999,589	\$ 4,319,554	\$ 5,145,137	\$ 4,900,390
Plan Fiduciary net position as a percentage of the total pension liability	66.87%	67.62%	78.33%	68.32%
Valuation date	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021

Benefit changes. Above amounts do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013, as they have a minimal cost impact. This applies to voluntary benefit changes as well as any offers of Two Year Additional Service Credit (aka Golden Handshakes).

Changes in assumptions. None

* Fiscal year ended June 30, 2015, was the first year of implementation.
Additional years will be presented as they become available.

SEWERAGE COMMISSION - OROVILLE REGION
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2023

Last 10 Fiscal Years*:

Measurement date	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Actuarially determined contribution	\$ 192,069	\$ 196,361	\$ 205,084	\$ 224,436	\$ 235,022
Total actual contributions	<u>192,069</u>	<u>196,361</u>	<u>205,084</u>	<u>224,436</u>	<u>235,022</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 572,157	\$ 597,910	\$ 646,734	\$ 589,435	\$ 693,706
Contributions as a percentage of covered employee payroll	33.57%	32.84%	31.71%	38.08%	33.88%

Measurement date	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Actuarially determined contribution	\$ 252,219	\$ 251,788	\$ 278,491	\$ 289,351
Total actual contributions	<u>252,219</u>	<u>251,788</u>	<u>278,491</u>	<u>289,351</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 615,293	\$ 681,315	\$ 620,694	\$ 746,869
Contributions as a percentage of covered employee payroll	40.99%	36.96%	44.87%	38.74%

* Fiscal year ended June 30, 2015, was the first year of implementation. Additional years will be presented as they become available.

SUPPLEMENTARY INFORMATION

**SEWERAGE COMMISSION - OROVILLE REGION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Favorable (Unfavorable)
OPERATING REVENUES				
Domestic sewage treatment	\$ 4,450,528	\$ 4,450,528	\$ 4,427,702	\$ (22,826)
Septage dumpers' fees	85,000	85,000	138,154	53,154
Total Operating Revenues	<u>4,535,528</u>	<u>4,535,528</u>	<u>4,565,856</u>	<u>30,328</u>
OPERATING EXPENSES				
Administration	712,330	712,330	638,441	73,889
Sewage treatment	2,122,504	2,122,504	1,704,037	418,467
Sewage collection	61,691	61,691	39,854	21,837
Total Operating Expenses	<u>2,896,525</u>	<u>2,896,525</u>	<u>2,382,332</u>	<u>514,193</u>
Operating income	<u>1,639,003</u>	<u>1,639,003</u>	<u>2,183,524</u>	<u>544,521</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	154,714	154,714	391,760	237,046
Revenue from other agencies:				
Regional facilities charges	663,800	663,800	989,062	325,262
Capital grants	-	-	289,153	289,153
Other non-operating revenues	-	-	172,222	172,222
Other non-operating expenses	-	-	(66,966)	(66,966)
Total Non-Operating Revenues and (Expenses)	<u>818,514</u>	<u>818,514</u>	<u>1,775,231</u>	<u>956,717</u>
OTHER BUDGETED ITEMS				
Capital outlay and major projects	(2,053,000)	(2,053,000)	(4,916,019)	(2,863,019)
Total Other Budgeted Items	<u>(2,053,000)</u>	<u>(2,053,000)</u>	<u>(4,916,019)</u>	<u>(2,863,019)</u>
CHANGE IN NET POSITION	<u>\$ 404,517</u>	<u>\$ 404,517</u>	<u>\$ (957,264)</u>	<u>\$ (1,361,781)</u>
Reconciliation of Budgetary Increase in Net Assets to GAAP Increase in Net Position				
Change in Net Position (Budgetary Basis)			\$ (957,264)	
Depreciation is not budgeted as an expense			(570,243)	
Equipment purchases capitalized on financial statements			<u>4,916,019</u>	
Change in Net Position (GAAP)			<u>\$ 3,388,512</u>	

SEWERAGE COMMISSION - OROVILLE REGION
COMPARATIVE SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ADMINISTRATION		
Salaries and wages	\$ 201,015	\$ 177,004
Employee benefits	131,342	123,720
Depreciation	30,881	71,484
Office expenses	6,019	12,739
Travel and meetings	7,330	6,063
Utilities	561	1,156
Insurance	100,146	77,617
Commissioners' fees	42,600	42,600
Engineering fees	38,025	6,825
Legal fees	30,083	17,644
Audit and accounting services	11,875	3,863
Other professional services	-	933
Miscellaneous	8,436	7,865
Permits	61,009	61,235
Total Administration	<u>669,322</u>	<u>610,748</u>
SEWAGE TREATMENT		
Salaries and wages	680,739	584,285
Employee benefits	557,134	484,793
GASB 68 adjustment	(624,183)	620,364
Depreciation	395,486	466,804
Gas, oil, and fuel	34,466	18,030
Office expenses	1,018	3,852
Operating expenses	281,921	144,864
Repairs and maintenance	146,923	150,570
Laboratory testing and analysis	143,863	64,802
Travel and meetings	856	2,553
Utilities	481,205	411,454
Miscellaneous	95	475
Total Sewage Treatment	<u>2,099,523</u>	<u>2,952,846</u>
SEWAGE COLLECTION		
Salaries and wages	8,336	4,697
Employee benefits	5,752	5,098
Depreciation	143,876	146,960
Repairs and maintenance	612	1,739
Utilities	25,154	21,458
Total Sewage Collection	<u>183,730</u>	<u>179,952</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,952,575</u>	<u>\$ 3,743,546</u>

SEWERAGE COMMISSION - OROVILLE REGION
SCHEDULE OF CHANGES IN RESTRICTED AND COMMISSION RESERVED NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

	Restricted and District Reserved Net Position							Net Position		
	Restricted For WCRF	Restricted For R&CA	Reserved For Capital Outlay	Reserved For Equip. & Facil.	Reserved For Annual O & M	Reserved For Penalties & Fines	Reserved For Flexible Spending	Unreserved	Total 2023	Total 2022
Balance, July 1	\$ 830,996	\$ 2,666,363	\$ 8,691,912	\$ -	\$ 300,000	\$ 8,505	\$ 25,156	\$ 18,549,590	\$ 31,072,522	\$ 24,886,290
Change in Net Position	-	-	-	-	-	-	-	3,388,512	3,388,512	6,186,232
Transfers from WCRF for:										
Purchase of capital assets	(117,626)	-	-	-	-	-	-	117,626	-	-
Transfers to WCRF for:										
Interest income	21,379	-	-	-	-	-	-	(21,379)	-	-
Purchase of capital assets	-	-	-	-	-	-	-	-	-	-
Portion of sewer service charges	78,058	-	-	-	-	-	-	(78,058)	-	-
Transfers from R&CA for:										
Purchase of capital assets	-	(32,085)	-	-	-	-	-	32,085	-	-
Transfers to R&CA for:										
Interest income	-	83,552	-	-	-	-	-	(83,552)	-	-
Portion of sewer service charges	-	1,282,382	-	-	-	-	-	(1,282,382)	-	-
Transfers from Capital Outlay for:										
Purchase of capital assets	-	-	(4,753,309)	(10,848)	-	-	-	4,764,157	-	-
Transfers to Capital Outlay for:										
Regional facility charges	-	-	989,062	-	-	-	-	(989,062)	-	-
Interest income	-	-	171,171	-	-	-	-	(171,171)	-	-
Transfers to Penalties & Fines for:										
Interest income	-	-	-	-	-	234	-	(234)	-	-
Prior period adjustment								310,971	310,971	-
Balance, June 30	<u>\$ 812,807</u>	<u>\$ 4,000,212</u>	<u>\$ 5,098,836</u>	<u>\$ (10,848)</u>	<u>\$ 300,000</u>	<u>\$ 8,739</u>	<u>\$ 25,156</u>	<u>\$ 24,537,103</u>	<u>\$ 34,772,005</u>	<u>\$ 31,072,522</u>

Note: The Wastewater Capital Reserve Fund (WCRF) is restricted externally by the State of California. The reserves for Capital Outlay, Annual O&M, Penalties & Fines and Flexible Spending were established by the District to accumulate funds to assist in financing future facility expansions and betterments, provide an emergency reserve for operations and unexpected fines and penalties, and accumulate resources for the Section 125 Flexible Spending Plan.

**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 Commissioners
Sewerage Commission – Oroville Region
Oroville, California 95965

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 Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Sewerage Commission – Oroville Region, as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2023, which was modified for the omission of management’s discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sewerage Commission – Oroville Region’s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sewerage Commission – Oroville Region’s internal control. Accordingly, we do not express an opinion on the effectiveness of Sewerage Commission – Oroville Region’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 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness as described in item 2023-1 below.

Board of Commissioners
Sewerage Commission – Oroville Region
Oroville, California 95965

2023-1 Reliance Upon Auditor For Preparation of Financial Statements and Footnote Disclosures

Condition: Management relies on the independent auditor to determine and prepare the proper presentation of the annual financial statements and related footnote disclosures.

Criteria: A system of internal control over financial reporting includes controls over financial statement presentation, including note disclosures, in conformity with U.S. generally accepted accounting principles. In considering a system of internal control over financial reporting, Statement of Auditing Standards state that the auditor may not be considered as part of the system. Specifically, someone from the Sewerage Commission – Oroville Region must be knowledgeable enough in generally accepted accounting principles to know if a misstatement has occurred in the financial statements, including the notes to the financial statements.

Cause: The Sewerage Commission – Oroville Region does not have an employee experienced in generally accepted accounting principles to the degree required to make a determination a misstatement has occurred, nor has an outside accountant been engaged by the Sewerage Commission – Oroville Region to provide the additional expertise.

Effect: Undetermined.

Recommendation: We recommend that management consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or engaging an independent Certified Public Accounting firm to compile full disclosure financial statements.

Management's Response: Management has considered the cost-benefit of hiring an individual familiar with generally accepted accounting principles or engaging an accounting firm to prepare full disclosure financial statements and have determined that the cost of such an action would exceed the resulting benefits derived.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewerage Commission – Oroville Region's financial statements are free of 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.

Board of Commissioners
Sewerage Commission – Oroville Region
Oroville, California 95965

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. The report is an integral part of the 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.

Fechter & Company
Certified Public Accountants


Sacramento, California
October 10, 2023