



Financial Statements

June 30, 2023

# Banning Utility Authority

(A Component Unit of the City of Banning)

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## Independent Auditor's Report

The Honorable Mayor and Members of the City Council  
Banning Utility Authority  
City of Banning, California

### Report on the Audit of the Financial Statements

#### ***Qualified and Unmodified Opinions***

We have audited the financial statements of the business-type activities and each major fund of the City of Banning Utility Authority (the Authority), a component unit of the City of Banning, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### ***Qualified Opinion on the Water Fund***

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the water fund of the Authority as of June 30, 2023, and the changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Unmodified Opinions on the Wastewater Fund and Business-Type Activities***

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the wastewater fund and the business-type activities of the Authority, as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Qualified and Unmodified Opinions***

We conducted our audit 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 (*Government Auditing Standards*). 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 City, 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 qualified and unmodified audit opinions.

### *Matter Giving Rise to Qualified Opinion on the Water Fund*

We were not engaged as auditors of the City until after June 30, 2023, nor did the City perform a year-end inventory observation as of June 30, 2023. We were unable to satisfy ourselves by performing other auditing procedures concerning the inventory held at June 30, 2023. As the inventory balance is material to the water fund, our opinion on this opinion unit is qualified with respect to this matter.

### ***Correction of Errors***

As discussed in Note 11 to the financial statements, certain errors resulting in a misstatement of amounts previously reported as of June 30, 2022, were discovered during the current year. Accordingly, a restatement has been made to the water fund, wastewater fund, and business-type activities net position as of July 1, 2022, to correct the errors. Our opinions are not modified with respect to that matter.

### ***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 Authority'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 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 Authority'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 Authority'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 schedules of changes in the net pension liability, schedules of pension contributions, and schedule of changes in the total OPEB liability and related ratios as listed in the table of contents, 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 GAAS, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2024, on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.



Rancho Cucamonga, California

July 31, 2024

Banning Utility Authority  
Statement of Net Position  
June 30, 2023

	Water Fund	Wastewater Fund	Business-Type Activities Total
Current Assets			
Pooled cash and investments	\$ 28,353,840	\$ 20,662,343	\$ 49,016,183
Receivables			
Accounts, net	2,257,589	956,879	3,214,468
Interest	92,265	71,156	163,421
Grants	1,498,240	-	1,498,240
Prepaid costs	2,625	1,313	3,938
Inventories	802,540	-	802,540
Cash with fiscal agent	126,430	2,732,753	2,859,183
	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>33,133,529</u>	<u>24,424,444</u>	<u>57,557,973</u>
Noncurrent Assets			
Capital Assets			
Capital assets, not being depreciated	5,502,898	1,100,768	6,603,666
Capital assets, net of accumulated depreciation	50,860,126	12,748,916	63,609,042
Right to use lease assets, net of accumulated amortization	228,774	-	228,774
	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>56,591,798</u>	<u>13,849,684</u>	<u>70,441,482</u>
Total assets	<u>89,725,327</u>	<u>38,274,128</u>	<u>127,999,455</u>
Deferred Outflows of Resources			
Deferred charge on refunding	611,975	-	611,975
Deferred pension related items	912,029	351,532	1,263,561
Deferred OPEB related items	21,139	18,713	39,852
	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>1,545,143</u>	<u>370,245</u>	<u>1,915,388</u>

Banning Utility Authority  
Statement of Net Position  
June 30, 2023

	Water Fund	Wastewater Fund	Business-Type Activities Total
Current Liabilities			
Accounts payable	\$ 1,482,164	\$ 78,818	\$ 1,560,982
Accrued liabilities	46,542	14,600	61,142
Accrued interest	133,885	10,065	143,950
Deposits payable	236,770	58,489	295,259
Compensated absences - due within one year	14,174	1,758	15,932
Long-term liabilities - due within one year	1,278,053	324,312	1,602,365
Total current liabilities	<u>3,191,588</u>	<u>488,042</u>	<u>3,679,630</u>
Noncurrent Liabilities			
Net pension liability	3,224,756	1,340,651	4,565,407
Total OPEB liability	107,525	33,797	141,322
Compensated absences - due within on year	222,995	90,378	313,373
Long-term liabilities - due within one year	18,778,514	3,411,787	22,190,301
Total noncurrent liabilities	<u>22,333,790</u>	<u>4,876,613</u>	<u>27,210,403</u>
Total liabilities	<u>25,525,378</u>	<u>5,364,655</u>	<u>30,890,033</u>
Deferred Inflows of Resources			
Deferred gain on refunding	-	84,621	84,621
Deferred pension related items	49,575	20,610	70,185
Deferred OPEB related items	10,633	26,533	37,166
Total deferred inflows of resources	<u>60,208</u>	<u>131,764</u>	<u>191,972</u>
Net Position			
Net investment in capital assets	37,147,206	12,531,687	49,678,893
Restricted for capital projects	126,430	230,030	356,460
Unrestricted	28,411,248	20,386,237	48,797,485
Total net position	<u>\$ 65,684,884</u>	<u>\$ 33,147,954</u>	<u>\$ 98,832,838</u>

**Banning Utility Authority**  
**Statement of Revenues, Expenditures and Changes in Net Position**  
**Year Ended June 30, 2023**

	Water Fund	Wastewater Fund	Business-Type Activities Total
Operating Revenues			
Sales and service charges	\$ 12,107,023	\$ 5,029,168	\$ 17,136,191
Miscellaneous	41,664	1	41,665
Total operating revenues	<u>12,148,687</u>	<u>5,029,169</u>	<u>17,177,856</u>
Operating Expenses			
Salaries and benefits	2,146,615	872,363	3,018,978
Supplies and services	5,022,056	2,040,325	7,062,381
Repairs and maintenance	79,192	57,784	136,976
Depreciation expense	1,672,805	727,353	2,400,158
Total operating expenses	<u>8,920,668</u>	<u>3,697,825</u>	<u>12,618,493</u>
Operating Income	3,228,019	1,331,344	4,559,363
Nonoperating Revenues (Expenses)			
Intergovernmental	1,984,405	-	1,984,405
Interest revenue and change in fair value of investments	270,365	193,518	463,883
Interest expense	(751,722)	(57,720)	(809,442)
Surplus revenue payment to City of Banning	(470,000)	(181,000)	(651,000)
Gain on disposal of capital assets	23,213	-	23,213
Total nonoperating revenues (expenses)	<u>1,056,261</u>	<u>(45,202)</u>	<u>1,011,059</u>
Income Before Contributions and Transfers	4,284,280	1,286,142	5,570,422
Contributions and Transfers			
Capital contributions	2,373,208	722,435	3,095,643
Transfers in from the City of Banning	16,174	3,693	19,867
Total contributions and transfers	<u>2,389,382</u>	<u>726,128</u>	<u>3,115,510</u>
Changes in Net Position	6,673,662	2,012,270	8,685,932
Net Position - Beginning of Year	59,030,405	31,003,409	90,033,814
Prior Period Adjustment	(19,183)	132,275	113,092
Net Position - Beginning of Year as Restated	<u>59,011,222</u>	<u>31,135,684</u>	<u>90,146,906</u>
Net Position - End of Year	<u><u>\$ 65,684,884</u></u>	<u><u>\$ 33,147,954</u></u>	<u><u>\$ 98,832,838</u></u>



Banning Utility Authority  
Statement of Cash Flows  
Year Ended June 30, 2023

	Water Fund	Wastewater Fund	Business-Type Activities Total
Operating Activities			
Cash received from customers and users	\$ 12,087,456	\$ 4,799,196	\$ 16,886,652
Cash paid to suppliers for goods and services	(4,156,978)	(2,077,831)	(6,234,809)
Cash paid to employees for services	(2,246,774)	(884,129)	(3,130,903)
Net Cash Provided (Used) by Operating Activities	<u>5,683,704</u>	<u>1,837,236</u>	<u>7,520,940</u>
Noncapital Financing Activities			
Contribution from City of Banning	16,174	3,693	19,867
Surplus revenue payment to City of Banning	(470,000)	(181,000)	(651,000)
Intergovernmental	505,720	-	505,720
Net Cash Provided (Used) by Noncapital Financing Activities	<u>51,894</u>	<u>(177,307)</u>	<u>(125,413)</u>
Capital and Related Financing Activities			
Acquisition and construction of capital assets	(5,300,923)	(1,024,950)	(6,325,873)
Capital contributions	2,373,208	722,435	3,095,643
Principal paid on capital debt	(1,226,836)	(420,950)	(1,647,786)
Interest paid on capital debt	(837,520)	(65,165)	(902,685)
Proceeds from sales of capital assets	23,213	-	23,213
Net Cash Used by Capital and Related Financing Activities	<u>(4,968,858)</u>	<u>(788,630)</u>	<u>(5,757,488)</u>
Investing Activities			
Interest received	219,662	154,069	373,731
Net Cash Used by Investing Activities	<u>219,662</u>	<u>154,069</u>	<u>373,731</u>
Net Change in Cash and Cash Equivalents	986,402	1,025,368	2,011,770
Cash and Cash Equivalents - Beginning of Year	<u>27,493,868</u>	<u>22,369,728</u>	<u>49,863,596</u>
Cash and Cash Equivalents - End of Year	<u>\$ 28,480,270</u>	<u>\$ 23,395,096</u>	<u>\$ 51,875,366</u>
Reconciliation to the Statement of Net Position			
Pooled Cash and Investments	\$ 28,353,840	\$ 20,662,343	\$ 49,016,183
Restricted Cash with fiscal agent	<u>126,430</u>	<u>2,732,753</u>	<u>2,859,183</u>
Total Cash and Cash Equivalents	<u>\$ 28,480,270</u>	<u>\$ 23,395,096</u>	<u>\$ 51,875,366</u>

Banning Utility Authority  
Statement of Cash Flows  
Year Ended June 30, 2023

	Water Fund	Wastewater Fund	Business-Type Activities Total
Reconciliation of Operating Income to Net			
Cash Provided by Operating Activities			
Operating Income	\$ 3,228,019	\$ 1,331,344	\$ 4,559,363
Adjustments to Reconcile Operating Income to Net Cash			
Provided by Operating Activities			
Changes in Operating Assets and Liabilities			
Depreciation expense	1,672,805	727,353	2,400,158
(Increase) Decrease in Assets and Deferred Outflow of Resources			
Accounts receivable	(178,271)	(228,660)	(406,931)
Prepaid expense	(2,625)	(1,313)	(3,938)
Inventories	119,665	-	119,665
Deferred pension related items	(539,047)	(196,469)	(735,516)
Deferred OPEB related items	(17,338)	(17,133)	(34,471)
Increase (Decrease) in Liabilities			
Accounts payable	908,740	17,523	926,263
Accrued liabilities	14,297	2,617	16,914
Deposits payable	21,233	138	21,371
Net pension liability	1,096,987	456,058	1,553,045
Total OPEB liability	(12,425)	(16,071)	(28,496)
Compensated absences	16,911	7,990	24,901
Deferred pension related items	(655,880)	(272,674)	(928,554)
Deferred OPEB related items	10,633	26,533	37,166
Net Cash Provided by Operating Activities	<u>\$ 5,683,704</u>	<u>\$ 1,837,236</u>	<u>\$ 7,520,940</u>
Supplemental Disclosures of Noncash Investing			
And Financing Activity			
Financed purchase of capital asset with long-term debt	\$ -	\$ 577,049	\$ 577,049
Amortization of Unamortized Premiums/Discounts	<u>125,339</u>	<u>-</u>	<u>-</u>
Amortization of Gain/Loss on Defeasance	<u>\$ (48,958)</u>	<u>\$ 6,770</u>	<u>\$ -</u>

## **Note 1 - Summary of Significant Accounting Policies**

### **A. Description of the Reporting Entity**

The Banning Utility Authority (Authority) is a joint powers authority which was established on June 1, 2005 pursuant to a Joint Exercise of Powers Agreement between the City of Banning and the Redevelopment Agency of the City of Banning in accordance with the Joint Powers Law (Article 1 through 4 of Chapter 5, division 7, title 1 of the California Government code) for the purpose of assisting the City in the leasing of the utility system. The Banning Redevelopment Agency was dissolved as of January 31, 2012, through the Supreme Court decision on Assemble Bill 1X26. The City services as the Successor Agency to the Redevelopment Agency of the City of Banning. The Authority's Officers are the Banning City Council. The Authority is a separate legal entity, which is financially accountable to the City of Banning. It is considered a component unit of the City and, accordingly, is included in the Annual Comprehensive Financial Report of the City of Banning.

The Authority consists of the Water Fund and the Wastewater Fund. These funds account for the operations of the Water and Wastewater utilities, respectively. Both funds render services on a user charge basis to residents and businesses located within the City of Banning. The City issued its Basic Financial Statement under a separate cover and are available at City Hall.

### **B. Basis of Accounting/Measurement Focus**

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses, as appropriate.

Propriety Fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows for the water and wastewater funds and business-type activities as a whole.

Propriety Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating Revenues in the proprietary funds are those revenues that are generally from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**C. Net Position Flow Assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grand proceeds) 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 Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**D. Cash and Investments**

The Authority’s cash and investments are governed by and in compliance with the California Government Code. Cash and investments are held in the City’s investment pool. Therefore, for purposes of the statement of cash flows, the Authority considers the entire pooled amount to be cash and cash equivalents.

The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**E. Unbilled Services Receivables**

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided, but unbilled, at year-end has been included in the accompanying financial statements.

**F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**G. Inventories and Prepaid Items**

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expandable supplies held for future consumption or capitalization. The cost is recorded as an expense when inventory items are consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

## H. Capital Assets

The Authority's assets are capitalized at historical cost or estimated historical cost. The Authority follows the City policy, which has set the capitalization threshold for reporting capital assets at \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Gifts or contributions of capital assets are recorded at acquisition value. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Utility Plant	20 to 60 Years
Land Improvements	15 to 25 Years
Machinery and Equipment	3 to 25 Years

Right to use lease assets with an initial, individual cost of more than \$25,000 (\$5,000 in prior years) are recognized at the lease commencement date and represent the City's right to use an underlying asset for the lease term. Right to use lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

## I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority currently has two items that qualify for reporting in this category. The first item is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item relates to the deferred outflows from changes in net position liability and total OPEB liability. Specifically, changes to deferred outflows related to the net difference in projected and actual earnings on plan investments, change in assumptions, and contributions subsequent to the measurement date.

In additions to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. It is the deferred inflows from changes in net pension liability and total OPEB liability. Specifically, changes to deferred inflows related to the difference between expected and actual experience.

## **J. Net Pension Liability**

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

## **Note 2 - Cash and Investments**

The Authority's cash is pooled with City funds for investment purposes, with interest being allocated on the basis of the Authority's overall percentage of participation. Investment policies and associated risk factors applicable to the Authority's funds are those of the City and are included in the City's financial statements. As of June 30, 2023, cash and investments of the Authority was as follows:

Cash and investments, pooled with the City of Banning	\$ 49,016,183
Restricted Cash and Investments	
Cash with Fiscal Agents - Money Market Mutual Funds	<u>2,859,183</u>
Total cash and investments	<u><u>\$ 51,875,366</u></u>

### **Cash and Investments with Fiscal Agents**

The Authority has funds held by a trustee/fiscal agent pledged for the payment or security of certain bonds. The California Government Code provides these funds, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Authority's general investment policy. In no instance have additional types of investments, not permitted by the Authority's general investment policy, been authorized.

See the City of Banning's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023 for further disclosure regarding the pooled cash and investments and related risks.

### **Equity in the Cash and Investment Pool of the City of Banning**

The Authority has no separate bank accounts or investments other than the Authority's equity in the cash and investment pool managed by the City. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Authority has not adopted an investment policy separate from that of the City. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an amortized cost basis. The City's investment pool is not registered with the Securities and Exchange Commission and is not rated.

## **Investments**

Under provision of the City's investment policy, the City is authorized to invest in investments allowed by Government Code of the State of California. From these permitted investments, the City's investment officials shall determine those investment types that best meet the needs and abilities of the City. Maximum maturity period for any portion of invested operating moneys shall not exceed five years per California Government Code.

### **Investments Authorized by Debt Agreements**

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the City's investment policy.

## **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. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual Standard & Poor's rating as of year-end for each investment type.

As of June 30, 2023, the Authority does not have any investments that are subject to this disclosure since both the City's pool and the Authority's cash with fiscal agent are unrated.

### **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 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 Authority'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 deposit 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

For the investments held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

### **Concentration of Credit Risk**

The City is in compliance with restrictions imposed by its investment policy, which limits certain types of investments. In addition, GASB Statement No. 40 requires a separate disclosure if any single issuer comprised more than 5% of the total investment value. The investments issued or explicitly guaranteed by the US government and investments in mutual money market funds and external investment pools are excluded from this requirement. Within the City's investment pool there are federal agency securities with Federal Home Loan Bank that represent more than 5% of total investment value. See the City's ACFR for further, detailed disclosures regarding concentration of credit risk.

### **Interest Rate Risk**

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2023, the City's investment pool had a weighted average maturity of 1.98 years and the Authority's money market mutual funds held by fiscal agent had a maturity of one year or less.

### **Fair Value Measurement and Application**

The City categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority's pro-rata share of investments in the City's investment pool at June 30, 2023, are uncategorized and measured at \$1.

### **Note 3 - Receivables**

As of June 30, 2023, the Authority had \$3,214,468 in accounts receivable. Receivables are reported net of allowance for doubtful accounts, which were established based on current collection experience. Allowances for doubtful accounts were \$530,204 for the Water Fund and \$194,643 for the Wastewater Fund.



#### Note 4 - Changes in Capital Assets

Capital Assets of the Authority for the year ended June 30, 2023, consisted of the following:

	Beginning Balance	Increases	Decreases	Transfers/ Adjustments	Ending Balance
Capital Assets Not Being Depreciated					
Land	\$ 3,343,377	\$ 252,193	\$ -	\$ -	\$ 3,595,570
Construction in progress	4,173,539	1,114,971	-	(2,280,414)	3,008,096
Total capital assets not being depreciated	7,516,916	1,367,164	-	(2,280,414)	6,603,666
Capital Assets Being Depreciated					
Buildings and Structures	-	-	-	124,070	124,070
Land improvements	18,430	-	-	2,621,660	2,640,090
Machinery and equipment	625,563	1,675,412	(111,801)	3,134,585	5,323,759
Utility plant	112,066,407	3,860,346	-	(3,571,097)	112,355,656
Total capital assets being depreciated	112,710,400	5,535,758	(111,801)	2,309,218	120,443,575
Less Accumulated Depreciation					
Land improvements	1,075	130,452	-	-	131,527
Machinery and equipment	138,271	345,625	(111,801)	123,401	495,496
Utility plant	54,457,247	1,750,263	-	-	56,207,510
Total accumulated depreciation	54,596,593	2,226,340	(111,801)	123,401	56,834,533
Total capital assets being depreciated, net	58,113,807	3,309,418	-	2,185,817	63,609,042
Right to Use Lease Assets Being Amortized					
Machinery and Equipment	8,573	-	-	-	8,573
Vehicles	378,642	-	-	-	378,642
Total Right to Use Lease Assets being Amortized	387,215	-	-	-	387,215
Less Accumulated Amortization for Right to Use Lease Assets	79,220	173,818	-	(94,597)	158,441
Right to Use Lease Assets, being amortized, net	307,995	(173,818)	-	94,597	228,774
Business-Type Activities Capital Assets, Net	\$ 65,938,718	\$ 4,502,764	\$ -	\$ -	\$ 70,441,482

Depreciation/amortization expense was charged to business-type activities as follows:

Banning Utility Authority Water	\$ 1,672,805
Banning Utility Authority Wastewater	727,353
Total depreciation/amortization expense - business-type activities	<u>\$ 2,400,158</u>

## Note 5 - Long Term-Debt

The following is a summary of the changes in long-term debt for the fiscal year ended June 30, 2023:

	Beginning Balance	Incurred	Retired	Ending Balance	Due Within One Year
Direct Borrowing					
Lease Liability	\$ 291,670	\$ -	\$ 96,836	\$ 194,834	\$ 93,053
Financed Purchase	-	577,049	195,950	381,099	94,312
Bonds Payable					
2015 Water Revenue Bond	19,425,000	-	1,130,000	18,295,000	1,185,000
2019 Wastewater Refunding Bond	3,580,000	-	225,000	3,355,000	230,000
Premium	1,692,072	-	125,339	1,566,733	-
Total	<u>\$ 24,988,742</u>	<u>\$ 577,049</u>	<u>\$ 1,773,125</u>	<u>\$ 23,792,666</u>	<u>\$ 1,602,365</u>

### a. Lease Liability

The authority leases vehicle and equipment for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2026. This liability, totaling \$194,834 at June 30, 2023, will be paid in future years. The annual requirements to amortize the lease liability as of June 30, 2023, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Totals
2024	\$ 93,053	\$ 1,855	\$ 94,908
2025	64,259	793	65,052
2026	37,522	121	37,643
Total	<u>\$ 194,834</u>	<u>\$ 2,769</u>	<u>\$ 197,603</u>

### b. Financed Purchase

On September 28, 2022, the Banning Utility Authority entered into a financed purchase agreement to purchase a vactor truck for wastewater operations. The financed purchase bears an interest rate of 4.50%. Interest is payable annually on September 28. The annual requirements to amortize the outstanding financed purchase as of June 30, 2023, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Totals
2024	\$ 94,312	\$ 962	\$ 95,274
2025	94,619	656	95,275
2026	94,940	335	95,275
2027	97,228	-	97,228
Total	<u>\$ 381,099</u>	<u>\$ 1,953</u>	<u>\$ 383,052</u>

#### 2015 Water Revenue Bonds

On August 19, 2015, the Banning Utility Authority issued \$25,365,000 in Water Revenue Bonds, Refunding and Improvement Projects. The proceeds of the bonds, together with other money being made available by the Authority, will be used to (i) finance certain capital improvements to the water fund; (ii) refund a portion of the Authority's \$35,635,000 Water Revenue Bonds, Refunding and Improvement Projects, 2005 Series, currently outstanding in the aggregate principal amount of \$29,165,000; and (iii) pay costs of issuance of the Bonds. As a result, the refunding bonds defeased the liability of the 2005 Water Revenue Bonds, which have been removed from long-term debt. The 2015 Water Revenue Bonds bear interest at rates ranging from 2.00% to 5.00%. Interest is payable semi-annually on May 1 and November 1.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2023, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Totals
2024	\$ 1,185,000	\$ 773,688	\$ 1,958,688
2025	1,240,000	713,063	1,953,063
2026	1,305,000	649,438	1,954,438
2027	1,370,000	582,563	1,952,563
2028	1,440,000	526,713	1,966,713
2029 to 2033	8,065,000	1,706,106	9,771,106
2034 to 2035	3,690,000	139,500	3,829,500
Total	<u>\$ 18,295,000</u>	<u>\$ 5,091,071</u>	<u>\$ 23,386,071</u>

#### 2019 Wastewater Refunding Revenue Bonds

On October 8, 2019, the Banning Utility Authority issued the 2019 Wastewater Refunding Revenue Bonds. The proceeds of the bond, together with other money being made available by the Authority, will be used to (i) refund the Authority's 2005 \$7,100,000 Wastewater Revenue Bonds, currently outstanding in the amount of \$4,585,000; (ii) finance certain improvements (the Facilities) to the Wastewater System of the City of Banning; (iii) and to refinance certain obligations of the Authority. As a result, the refunding bonds defeased the liability of the 2005 Wastewater Revenue Bonds, which have been removed from long-term debt. The refunding resulted in an economic gain of \$109,348. The 2019 Wastewater Refunding Revenue Bonds bear interest of 1.80%. Interest is payable semi-annually on May 1 and November 1, commencing May 1, 2020. The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2023, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Totals
2024	\$ 230,000	\$ 58,320	\$ 288,320
2025	235,000	54,135	289,135
2026	240,000	49,860	289,860
2027	245,000	45,495	290,495
2028	250,000	41,040	291,040
2029 to 2033	1,315,000	135,585	1,450,585
2034 to 2036	840,000	22,860	862,860
Total	<u>\$ 3,355,000</u>	<u>\$ 407,295</u>	<u>\$ 3,762,295</u>

### Pledged Revenue

The Authority pledged, as security for bonds issued, all surplus revenues from the fund.

The bonds include a provision, that in any event of default, the trustee has the right to accelerate the total unpaid principal amount of the bonds. However, in the event of default and such acceleration, there can be no assurance that the Trustee will have sufficient moneys available for payment of the bonds.

### **Note 6 - Compensated Absences**

Accumulated vacation, sick leave, holiday and compensatory time amount to \$329,305.

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Water	\$ 220,258	\$ 159,603	\$ 142,692	\$ 237,169	\$ 14,174
Wastewater	84,146	58,402	50,412	92,136	1,758
Total	<u>\$ 304,404</u>	<u>\$ 218,005</u>	<u>\$ 193,104</u>	<u>\$ 329,305</u>	<u>\$ 15,932</u>

### **Note 7 - Insurance**

The Authority is covered under the City of Banning's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Authority.

The City maintains self-insurance programs for workers' compensation, general liability and wrongful employment practices. For general liability claims, the City is at risk for up to \$50,000 per occurrence; amounts in excess of \$50,000 up to \$50,000,000 are covered through the Public Entity Risk Management Authority (PERMA) and excess insurance. For workers' compensation claims, the City is at risk for up to \$250,000 per occurrence. Losses exceeding \$250,000 up to statutory limits are covered by the PERMA under their risk-sharing pool program and excess insurance. For wrongful employment practices claims, the City is at risk for up to \$25,000 per occurrence; amounts in excess of \$25,000 up to \$1,000,000 are covered through the Employment Risk Management Authority. Estimates for all liabilities, including an estimate for incurred but not reported claims (IBNR's), have been included in the City's Self-Insurance Internal Service Fund.

PERMA also provides a nonrisk sharing "deductible" or claims-servicing pool for general liability claims within the self-insured retention (SIR) level (\$50,000). Annual contributions are deposited with the Authority from which claims are paid on behalf of the City. Any claims paid by PERMA for the City in excess of deposits at year-end are recorded as "Due to Other Agencies" within the City's Self-Insurance Internal Service Fund.

In addition, the City makes deposits with PERMA for workers' compensation claims below the \$250,000 SIR from which claims are paid on behalf of the City.

There are no significant reductions the City's insurance coverages from prior years and there have been no settlements exceeding the insurance coverages for each of the past three fiscal years.

## **Note 8 - Commitments and Contingencies**

### **Banning Utility Authority Lease Commitment**

The City created the Authority on July 1, 2005. The Authority leases from the City all of its utility enterprise assets. The Authority has also entered into a management agreement with the City for the operation and maintenance of the utility enterprises. The lease expires on June 30, 2060, after which time, all of the utility enterprise assets and activities revert to the City. The lease does not qualify as a lease under GASB Statement No. 87, *Leases*. The Authority's right to the utility enterprise funds does not meet the description of an exchange or exchange-like transaction because each party does not receive or give up essentially equal value or not quite equal value. In addition, the governing boards of the City and Authority are the same and can modify the terms of the lease at will. No fixed payment amounts from the Authority to the City were identified and payments are only to be made after maintenance and operations costs of the Authority, as well as any outstanding debt service. The amount will then be determined between the City and the Authority. During the fiscal year, the Authority made lease payments of \$651,000 to the City, which are reported within the nonoperating expenses of the Statement of Revenues, Expenses, and Changes in Fund Net Position.

### **Grant Compliance Audits**

The Authority participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

### **Pending Litigation**

The City is involved in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates that potential claims against the City, not covered by insurance, will not have a material adverse effect on the financial statements of the Authority.

## **Note 9 - City Employees Retirement Plan (Defined Benefit Pension Plan)**

### **a. General Information about the Pension Plan**

#### Plan Description

All qualified permanent and probationary employees of the Authority are eligible to participate in the City's Miscellaneous Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. 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. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

Hire Date	Prior to January 1, 2013*	On/after January 1, 2013
Benefit Formula	2.5% at Age 55	2.2% at Age 62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	Age 50	Age 52
Monthly Benefits, as a Percentage of Eligible Compensation	2.00% to 2.50%	1.00% to 2.50%
Required Employee Contribution Rates	7.46%	7.00%
Required Employer Contribution Rates		
Normal Cost Rate	9.42%	7.19%
Payment of Unfunded Liability	\$ 324,685	\$ -

\*Closed to new entrants not previously in CalPERS

### Contributions

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 both Plans are 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 City is required to contribute the differences between the actuarially determined rate and the contribution rate of employees. For the period ended June 30, 2023, the Authority's portion of contributions totaled \$501,973.

### **b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2022, the measurement date, the Authority reported net pension liabilities for its proportionate share of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 4,565,407

The Authority's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans 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 Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Authority's proportionate share of the net pension liability for the Miscellaneous Plans as of June 30, 2021 and 2022, the measurement dates, was as follows:

Proportion - June 30, 2021	15.90%
Proportion - June 30, 2022	<u>14.29%</u>
Change - Increase(Decrease)	<u><u>-1.61%</u></u>

For the year ended June 30, 2023, the Banning Utility Authority incurred a pension expense of \$569,119 for the Plan. At June 30, 2023, the City of Banning has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 501,973	\$ -
Difference between Expected and Actual Experience	17,262	70,185
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	467,934	
Changes in Assumption	<u>276,392</u>	<u>-</u>
Total	<u><u>\$ 1,263,561</u></u>	<u><u>\$ 70,185</u></u>

The \$501,973 reported as deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	
2024	\$ 194,385
2025	169,727
2026	32,626
2027	<u>294,665</u>
Total	<u><u>\$ 691,403</u></u>

### Actuarial Assumptions

For the measurement period ended June 30, 2022, the total pension liability was determined by rolling forward the June 30, 2021 total pension liability. The June 30, 2021 and the June 30, 2022 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	6.90%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.00 % Net of Pension Plan Investment and Administrative Expenses; including Inflation.
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

### Changes of Assumption

For the measurement period ended June 30, 2022, the discount rate was reduced from 7.15 percent to 6.90 percent, the inflation rate was reduced from 2.50 percent to 2.30 percent, and the investment rate of return was reduced from 7.15 percent to 6.90 percent.

### Discount Rate

The discount rate used to measure the total pension liability was 6.90% for the Miscellaneous Plan and reflects the long-term expected rate of return of the Plan net of investment expenses and without reduction for administrative expenses. The projection of cash flows used to determine the discount rate of Miscellaneous Plan assumed that contributions from plan member 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 Miscellaneous Plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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.



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.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

<u>Asset Class (1)</u>	<u>New Strategic Allocation</u>	<u>Real Return (2) (3)</u>
Global Equity - Cap-Weighted	30.00 %	4.54
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)
Total	<u>100.00 %</u>	

- (1) In the System's ACFR, 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
- (2) An expected inflation of 2.30% used for this period.
- (3) Figures are based on the 2021-22 Asset Liability Management study.

Sensitivity of the Net Pension Liability to Changes in the Discount Rates

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what 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:

	1% Decrease (5.9%)	Current Discount Rate (6.9%)	1% Increase (7.9%)
Miscellaneous Plan's Net Pension Liability (Assets)	\$6,377,577	\$4,565,407	\$3,064,269

\*This information represents the sensitivity of the Authority's overall Net Pension Liability to changes in the discounted rates.

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

**Note 10 - Other Postemployment Benefit Plan**

Plan Description

All qualified permanent and probationary employees of the Authority are eligible to participate in City's other postemployment benefits (OPEB) which is provided through a single-employer defined benefit healthcare plan. The plan, which is administered by the City, allows employees at retirement to continue participating in City medical plans with payment of the full premium until age 65. Premiums are the same for actives and retirees, resulting in an implicit subsidy to retirees. Employees who waive coverage at retirement are not eligible to reenroll. The Authority to do so is included annually in the memorandum of understanding between the City and each of its employee groups and ultimately passed by City council action. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement 75. The plan does not issue a separate report.

As of June 30, 2022, the measurement date, the Authority reported total OPEB liability of \$141,322 for its proportionate share of the total OPEB liability.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2023, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	3.54%
Inflation	2.50%
Projected Salary Increase	2.75% per annum, in aggregate
Healthcare Cost Trend Rates	8.5% decreasing to 3.45% by 2076
Pre-retirement Turnover	Derived from CalPERS pensions plan
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

Discount Rate

There are no assets accumulated in a trust; therefore, the discount rate is the average of three rate indices: S&P General Obligation Municipal Bond 20-Year High Grad Index, the Fidelity Municipal Bond AA 20-Year Maturity Yield and the Bond Buyer General Obligation 20-Bond Municipal Bond index. The use of this index results to discount rate of 3.54% at measurement date June 30, 2022.

Change in Assumption

Discount rate was changed from 2.16% to 3.54%.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, calculated using the discount rate for the Plan, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB Liability	\$152,503	141,322	\$130,826

\*This information represents the sensitivity of the Authority's overall Total OPEB Liability to changes in the discount rates.

The following presents the total OPEB liability of the Authority, calculated using the discount rate for the Plan, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	Healthcare Cost Trend Rates <u>Current</u>	<u>1% Increase</u>
Miscellaneous Plan's Net Total OPEB Liability	\$124,960	141,322	\$160,687

\*This information represents the sensitivity of the Authority's overall Total OPEB Liability to changes in the healthcare cost trend rates.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Authority recognized OPEB expense of \$269,995. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 4,270	\$ -
Change in Proportion	35,202	23,191
Change in Assumptions	380	13,975
Total	<u>\$ 39,852</u>	<u>\$ 37,166</u>

An amount of \$4,270 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Deferred Outflows/Inflows of Resources</u>
2024	\$ (323)
2025	(323)
2026	(323)
2027	(323)
2028	(323)
Thereafter	31
Total	<u>\$ (1,584)</u>

**Note 11 - Correction of Errors**

A restatement was recorded to the beginning net position of the water fund in the amount of (\$19,183) and the wastewater fund in the amount of \$132,275 to record receivable balances incurred but not recorded in the prior year due to the trial balance not being reconciled to the general ledger. The restatement reduced the prior year change in net position by \$19,183 for the water fund and increased the prior year change in net position by \$132,275 for the wastewater fund.

	<u>Water</u>	<u>Wastewater</u>	<u>Business-Type Activities</u>
Net Position at July 1, 2022, as previously reported	\$ 59,030,405	\$ 31,003,409	\$ 90,033,814
Accounts receivable	<u>(19,183)</u>	<u>132,275</u>	<u>113,092</u>
Net Position, as restated	<u><u>\$ 59,011,222</u></u>	<u><u>\$ 31,135,684</u></u>	<u><u>\$ 90,146,906</u></u>



Required Supplementary Information  
June 30, 2023

## Banning Utility Authority

Banning Utility Authority  
Schedule of Proportionate Share in Net Pension Liability and Related Ratios  
Last Ten Fiscal Years\*  
June 30, 2023

Fiscal Year End	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement Period	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	14.29%	15.90%	16.07%	16.07%	16.07%	16.07%	17.66%	18.14%	18.14%
Plan's Proportionate Share of the net Pension Liability	\$4,565,407	\$3,012,362	\$4,383,010	\$4,194,667	\$3,877,339	\$3,861,222	\$3,966,634	\$3,616,218	\$3,308,132
Plan's Covered Payroll	\$1,623,839	\$1,505,440	\$1,380,098	\$1,474,271	\$1,323,997	\$750,489	\$903,564	\$1,084,435	\$1,073,672
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	281.15%	204.33%	317.59%	284.52%	292.85%	514.49%	439.00%	333.47%	308.11%
Plan's Proportionate Share of Aggregate Employers Contributions	\$501,973	\$472,661	\$487,369	\$400,411	\$345,993	\$299,328	\$282,328	\$282,241	\$244,728

Notes to Schedule

Benefit Changes

There were no changes in benefits

Changes in Assumptions

From fiscal year June 30, 2015 to June 30, 2016

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.5% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expenses.

From fiscal year June 30, 2016 to June 30, 2017

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018

The accounting discount rate reduced from 7.65% to 7.15%

From fiscal year June 30, 2018 to June 30, 2019

Demographic assumptions and inflation rate were changed in accordance with CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

From fiscal year June 30, 2019 to June 30, 2020

There were no changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021

There were no changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022

The accounting discount rate reduced from 7.15% to 6.90%

\* - Fiscal year 2015 was the first year of implementation; therefore, only nine years are shown.

Banning Utility Authority  
Schedule of Plan Contributions  
Last Ten Fiscal Years\*  
June 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contributions - Contributions in Relation to The Actuarially Determined Contribution	\$ 501,973	\$ 487,369	\$ 451,639	\$ 400,411	\$ 345,993	\$ 299,328	\$ 282,241	\$ 268,518	\$244,728
	<u>(501,973)</u>	<u>(487,369)</u>	<u>(451,639)</u>	<u>(400,411)</u>	<u>(345,993)</u>	<u>(299,328)</u>	<u>(282,241)</u>	<u>(268,518)</u>	<u>(244,728)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$1,769,717	\$1,623,839	\$1,505,440	\$1,380,098	\$1,474,271	\$1,323,997	\$750,489	\$903,564	\$1,084,435
Contributions as a Percentage of Covered Payroll	28.36%	30.01%	30.00%	29.01%	23.47%	22.61%	37.61%	29.72%	22.57%
Notes to Schedule:									
Valuation Date	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates									
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.50%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Investment Rate of Return	7.00% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.375% (3)	7.15% (3)	7.375% (3)	7.375% (3)
Retirement Age	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)

(1) Level percentage of payroll, closed

(2) Depending on age, service, and type of employment

(3) Net of pension plan investment expense, including inflation

(4) 2.5% at 55 and 2% at 60 retirement age from 50-67, 2% at 62 retirement age 52-67

(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by CalPERS Board of Directors.

\* - Fiscal year 2015 was the first year of implementation; therefore, only nine years are shown.



Banning Utility Authority  
Schedule of Proportionate Share in Total OPEB Liability and Related Ratios  
Last Ten Fiscal Years\*  
June 30, 2023

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Fiscal Year Ended	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Measurement Period	June 30, 2022	June 30, 2021
Plan's Proportion of the total OPEB Liability	12.68%	15.90%
Plan's Proportionate Share of the total OPEB Liability	\$141,322	\$169,818
Plan's Coverage Payroll	\$1,623,839	\$1,505,440
Plan's Proportionate Share of the total OPEB Liability as a Percentage of Covered Payroll	8.70%	11.28%

Notes to Schedule

Benefit Changes

There were not changes in benefits.

Changes in Assumptions

From fiscal year June 30, 219 to June 30, 2020

There were no changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021

There were no changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022

There were no changes in assumptions.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement 75.

\* - Fiscal year 2021 was the first year of implementation; therefore, only three years are shown.



**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***

City Council  
Banning Utility Authority  
Banning, California

We have audited, in accordance with the auditing standards generally accepted the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the City of Banning Utility Authority (the Authority), a component unit of the City of Banning, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 31, 2024. Our report qualified the opinion on the water fund because management had not engaged Eide Bailly LLP as of June 30, 2023. As such, we could not perform an inventory observation. Additionally, the City did not perform a year-end inventory observation. Our report also included an emphasis of matter paragraph regarding a restatement of beginning net position/fund balance for the correction of errors.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2023-001 through 2023-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2023-004 to be a significant deficiency.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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*.

### **Authority's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eric Bailly LLP".

Rancho Cucamonga, California  
July 31, 2024

**2023-001 Internal Controls over the Financial Reporting Process and Year-End Closing Process**

***Type of Finding: Material Weakness***

***Criteria:***

Management is responsible for the preparation and fair presentation of the financial statements. Management is responsible for ensuring that all financial records and related information is reliable and properly recorded. This requires management to perform a year-end closing process to accumulate, reconcile and summarize information for inclusion in the annual financial statements. Management is responsible for timely billing and collection of receivables. Management is responsible for reporting revenue as it is earned and available, where appropriate.

***Condition:***

During the audit, we identified adjustments, which were proposed and posted, as follows:

- Depreciable assets and related liability for a vector truck within the wastewater fund were reclassified into traditional capital assets and long-term debt out of right-of-use assets and lease liabilities as it was deemed to not qualify as a lease under GASB 87

Corrections of errors to prior year financial statements were posted, as follows:

- A restatement was recorded to the beginning net position of the business-type activities in the amount of \$113,092, the water fund in the amount of (\$19,183) and wastewater fund in the amount of \$132,275 to record receivable balances incurred but not recorded in the prior year. The restatement reduced the beginning net position by \$19,183 for the water fund and increased the beginning net position by \$132,275 for the wastewater fund.

Additionally, instances occurred throughout audit fieldwork where subsidiary listings either could not be generated to support account balances or did not agree to the general ledger. A subsidiary listing could not be generated for accounts payable. Within capital assets, the City reclassified business-type accumulated depreciation balances from prior year audits to agree to subsidiary listings.

The City's net investment in capital asset calculation erroneously excluded deferred charges, deferred gain on refunding, lease/SBITA activity, and unspent bond proceeds. The calculation erroneously included accrued interest.

***Cause:***

The City did not consistently maintain year-end closing procedures to ensure that all financial information was accumulated and reconciled timely.

***Effect:***

Journal entries were posted, and adjustments made to the financial statements, in order to fairly present the financial statements.

***Context:***

The conditions were noted during our testwork throughout the audit.

***Recommendation:***

We recommend the City implement and/or strengthen its closing policies and procedures to ensure amounts are properly captured, reconciled, classified, reviewed, reported in a timely manner, and agree to subsidiary listings.

***Views of Responsible Officials:***

Management agrees with the finding. See separate corrective action plan.

**2023-002**

**Inventory Counts**

***Type of Finding:*** *Material Weakness*

***Criteria:***

Management is responsible for performing test counts of inventories throughout the year, as necessary, and specifically at year-end.

***Condition:***

The City did not perform a year-end inventory count.

***Cause:***

The City did not have an internal control process in place to perform a year-end inventory count.

***Effect:***

Not performing an annual inventory count could lead to a material misstatement of inventory balances. Further, the opinion was qualified for the water fund. The City had not engaged Eide Bailly as the City's auditor as of June 30, 2023, and therefore an inventory observation was not performed.

***Context:***

The conditions were noted during our testwork throughout the audit.

***Recommendation:***

The City should perform inventory counts at year-end, as well as ensuring an auditor is engaged to perform a year-end observation.

***Views of Responsible Officials:***

Management agrees with the finding. See separate corrective action plan.

**2023-003 Timely Preparation and Review of Bank Reconciliations**  
***Type of Finding: Material Weakness***

***Criteria:***

Management is responsible for reconciling and reviewing bank accounts in a timely manner on a monthly basis.

***Condition:***

The December 2022 General Account bank reconciliation was prepared in May 2023. Additionally, the June 2023 bank reconciliations, with the exception of the General Account, were reviewed in November 2023.

***Cause:***

The City did not have monitoring processes in place throughout the year to prepare and review bank reconciliations in a timely manner.

***Effect:***

Errors could go undetected without a timely preparation and review process.

***Context:***

The conditions were noted during our testwork throughout the audit.

***Recommendation:***

Bank reconciliations should be prepared and reviewed timely.

***Views of Responsible Officials:***

Management agrees with the finding. See separate corrective action plan.

**2023-004      Utility Customer Account Adjustments**

***Type of Finding:*** Significant Deficiency

***Criteria:***

Management is responsible for monitoring adjustments to utility customer accounts.

***Condition:***

During the process to gain an understanding of the utility customer accounts, it was noted adjustments to customer accounts can be prepared and posted by the same individual. Additionally, customer account adjustments are not reviewed.

***Cause:***

A lack of segregation of duties and review process over utility adjustments allows for potentially unapproved adjustments to customer accounts.

***Effect:***

The control environment over customer accounts is weakened.

***Context:***

The conditions were noted during our testwork throughout the audit.

***Recommendation:***

We recommend the City implement policies and procedures that restrict the same individual from having the ability to adjust customer accounts. Additionally, a process should be implemented to review adjustments to customer accounts on a one-by-one basis, based on certain thresholds, or an aggregate basis.

***Views of Responsible Officials:***

Management agrees with the finding. See separate corrective action plan.