



Whale Rock Commission Financial Statements

For the Fiscal Years ended June 30, 2024 and 2023



Whale Rock Commission
Fiscal Years Ended June 30, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

To the Members
of the Whale Rock Commission
San Luis Obispo, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities and general fund of the Whale Rock Commission (Commission), as of and for the years ended June 30, 2024, and June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and general fund information of the Commission, as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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. 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.

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 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 GAAS 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, 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.

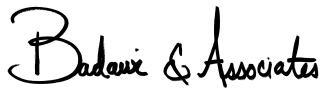
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-12 and 33-34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Members
of the Whale Rock Commission
San Luis Obispo, California
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2025, on our consideration of the Commission'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs
Berkeley, California
March 31, 2025

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Management's Discussion & Analysis

This section provides a narrative overview and analysis of the financial activities of the Whale Rock Commission for the fiscal years ended June 30, 2024 and 2023. It should be read in conjunction with the accompanying basic financial statements.

Overview of the Financial Statements

The financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34. The basic financial statements are composed of three components:

1. Government-wide financial statements
2. Fund financial statements and
3. Notes to the financial statements.

Government-Wide Financial Statements

This set of statements is designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all the Commission's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Commission is improving or declining.

The *Statement of Activities* presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information reflects financial resources available in the near future to finance the Whale Rock Fund. All of the activities of the Commission are accounted for in one fund.

Whale Rock Commission

The Whale Rock Fiduciary (Custodial) fund is used to account for the Commission's ongoing operating activities. Ownership in the Reservoir is as follows: 55.05%, City of San Luis Obispo; 33.71%, California Polytechnic State University; and 11.24%, California Men's Colony. The City's share of the Commission's expenses is recorded as expenses of the Water Enterprise Fund. All receipts and disbursement of the Commission are included in the fiduciary fund.

Management's Discussion & Analysis

Financial Highlights

The following outlines financial highlights for the year:

- The assets of the Commission exceeded its liabilities at June 30, 2024 by \$6.2 million (net position). The Commission's unrestricted net position increased by \$423,000 compared with FY2022-23.
- Total assets increased by \$448,000 or 8% to just over \$6.4 million. This reflects an increase in net cash and receivables of \$511,000 offset by \$63,000 of steady increases in accumulated depreciation of capital assets. Total liabilities also increased by \$88,000 to \$206,000 as a result of the net increase in vendors payable, accrued salaries and other accrued liabilities in FY2023-24.
- For the FY 2023-24 total program revenues including basic operating charges and water distribution income amounted to nearly \$2.1 million. Meanwhile, general revenues and transfers, including investment earnings, CIP contributions, and other revenues, amounted to approximately \$970,000. This represents increases of 39% and 11% respectively. In contrast, the decrease in capital contributions was a result of lower capital activity than budgeted for the fiscal year.
- Water Distribution revenues increased from the prior year by \$462,000 from \$372,000 in FY2022-23 to nearly \$834,000 in the current fiscal year. This increase was primarily due to the impact of the Nacimiento pipeline being down for repairs and thus leading to higher demand from the Whale Rock Reservoir.
- Use of money and property revenues increased by \$207,103 to nearly \$268,000 for FY2023-24 due to favorable market conditions affecting interest earnings on the invested cash of the commission.
- Total expenses of \$2.7 million were higher in FY2023-24 from the prior year by just over \$1.0 million, which represents an increase of 61%. This increase was primarily driven by an increase in project related expenditures such as major maintenance efforts as well as an increase of electrical services needed to meet the demand for the Whale Rock pipeline while the Nacimiento pipeline was down for repairs. Depreciation remained consistent with the prior year.

Management's Discussion & Analysis

Operational Highlights

During FY2023-24, Whale Rock staff maintained the reservoir and related facilities, delivered water, and participated in long-term capital improvement projects. The following are the operational highlights that occurred during the fiscal year.

Rock Guard Dig Out

During the FY2023-24, Whale Rock staff used a small excavator and the Whale Rock tractor to remove 80-100 cubic yards of material from the metal screen rock guard. This structure, which was constructed in 1984, was designed to protect the Reservoir's intake structure from rock, gravel, and other debris that erodes and falls from the steep adjacent hillside. Over the years, a large amount of eroded material had accumulated behind the rock guard. Thus this project helped to maintain the effectiveness of the rock guard and protect Whale rock structures from damage.



WHALE ROCK STAFF DIGGING OUT THE ROCKGUARD

New Check Valve and Plumbing

The Whale Rock team replaced a failed check valve and plumbing components at Pump Station A. If a check valve is not operating correctly, water can flow backwards, reducing pumping efficiency and increase the electrical expenditures required to operate the machinery. The high-pressure rating of this check valve required a special order and a long lead time. Staff also replaced the fabricated steel plumbing reducer shown in the picture below.



Management's Discussion & Analysis

Exposed Whale Rock Pipeline

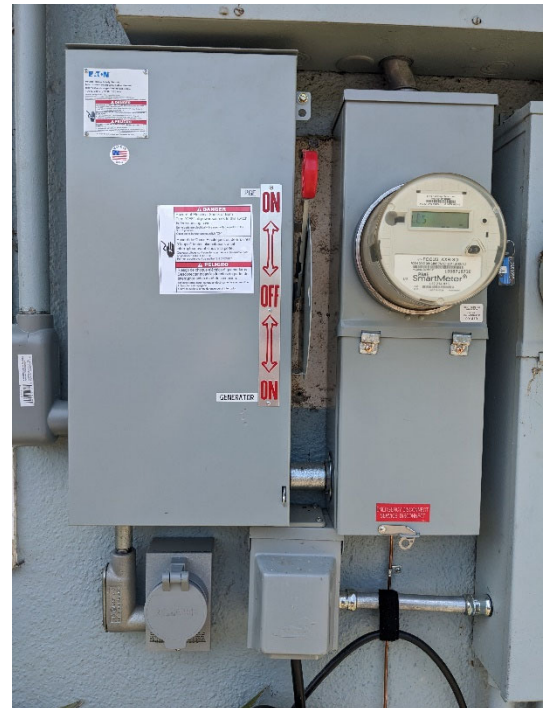
In many locations, the Whale Rock pipeline crosses a seasonal drainage or creek and is above grade, exposing it to the elements. These pipeline crossings require regular coating to inhibit corrosion. During the fiscal year, Whale Rock staff worked to recoat many pipeline crossings to prevent corrosion and prolong the pipeline's service life.



RECOATED PIPELINE CROSSING NEAR HWY 1

Generator Transfer Switch Installation

Whale Rock staff also worked with Electicraft, a local electrical contractor, to procure and install a manual generator transfer switch for the Whale Rock Office. The transfer switch allows the Whale Rock office to operate from the gas-powered generator instead of regular electricity when needed. Therefore, this installation provided power supply redundancy and will allow for continuous electricity to staff during power outages.



GENERATOR TRANSFER SWITCH AT THE WR OFFICE

Management's Discussion & Analysis

Spillway Underdrain Repairs

The Whale Rock Dam spillway underdrains are designed to catch the water that can accumulate under the spillway's concrete structure and return it to the spillway. This protects the concrete spillway from erosion. The Spillway Underdrain Repair Project originated from a 2018 condition assessment that found defects in the spillway underdrain piping. The repair project was later awarded in June of 2023. The completion of this project during FY2023-24 restored the spillway underdrain system to the original design specifications by repairing the defects and utilizing a "riprap" slope protection technique on the North side of the spillway. The Whale Rock Dam Spillway is now in excellent condition and will continue to provide service for many years.



COMPLETED SPILLWAY UNDERDRAIN REPAIRS

Fence Replacement

Whale Rock staff worked with Nelson Fencing, a local fencing contractor, to replace approximately 4,000 feet of five-wire cattle fencing around the reservoir. This project realigned the fence line to be closer to Old Creek Road. This change made the new fence more easily visible to the public allowing for a clear delineation between the Whale Rock property and the surrounding area while on Old Creek Road.



NEW FENCING ALONG OLD CREEK ROAD

The Notes to the Financial Statements provide additional information that is essential to the reader for a full understanding of the data provided in the Commission's financial statements.

Management's Discussion & Analysis

Financial Analysis

Net position may serve, over time, as an indicator of a government's financial position. As noted above, assets exceeded liabilities by \$6.2 million at June 30, 2024.

SUMMARY OF NET POSITION Government Wide		
Whale Rock	FY2023-24	FY2022-23
Current and other assets	\$ 5,758,318	\$ 5,247,041
Capital assets	663,072	726,355
Total assets	6,421,390	5,973,396
Current liabilities	190,526	98,643
Noncurrent liabilities	15,436	19,304
Total liabilities	205,962	117,947
Net position:		
Net investment in capital assets	663,072	726,355
Unrestricted	5,552,356	5,129,094
Total net position	\$ 6,215,428	\$ 5,855,449

At the end of the current fiscal year, the Commission continues to report a positive net position.

Information about changes in net position resulting from operations is summarized below:

STATEMENT OF ACTIVITIES Government Wide		
Whale Rock	FY2023-24	FY2022-23
Revenues:		
Charges for services	\$ 2,076,855	\$ 1,498,920
Other revenues	701,658	816,512
Use of money and property	267,853	60,750
Total Revenues	3,046,366	2,376,182
Expenses:		
Operations	1,771,627	1,233,371
Capital projects	577,105	176,959
General government	274,372	190,501
Depreciation	63,283	63,284
Total expenses	2,686,387	1,664,116
Increase (decrease) in net position	359,979	712,067
Net position, beginning	5,855,449	5,143,382
Prior year restatement	-	-
Net position, beginning of year, as restated	5,855,449	5,143,382
Net position, ending	\$ 6,215,428	\$ 5,855,449

Management's Discussion & Analysis

Commission Contributions

Members contribute for both operating and maintenance activities as well as capital improvement projects (CIP) which may also include contributions toward the CIP reserve. Total contributions by member are show below.

MEMBER CONTRIBUTIONS		
	FY2023-24	FY2022-23
City of San Luis Obispo		
O&M Allocation	\$ 684,116	\$ 620,372
CIP Contribution incl. reserve	339,862	403,920
Total Annual Contribution	\$ 1,023,978	\$ 1,024,291
Cal Poly State University		
O&M Allocation	\$ 418,920	\$ 379,886
CIP Contribution incl. reserve	284,695	323,920
Total Annual Contribution	\$ 703,615	\$ 703,806
California Men's Colony		
O&M Allocation	\$ 139,681	\$ 126,666
CIP Contribution incl. reserve	69,393	82,472
Total Annual Contribution	\$ 209,074	\$ 209,138

Budgetary Highlights

A budgetary comparison schedule for the year ended June 30, 2024 is presented as part of the required supplementary information. The following summarizes the original and final budget compared with actual results for 2023-24. The variance column reflects the differences between the actual amounts realized and the final budget amounts. While revenues came in above budget, expenditures came in significantly under due to budgeted project activity that did not happen during the year.

BUDGET TO ACTUAL COMPARISON				
Fund Financial Statements				
Whale Rock	Original Budget	Final Budget	Actual	Variance
Revenues	\$ 2,479,066	\$ 2,963,066	\$ 3,046,366	\$ 83,300
Expenditures	1,969,494	4,202,586	2,623,104	1,579,482
Commission equity, beginning	5,129,094	5,129,094	5,129,094	-
Commission equity, ending	\$ 5,638,666	\$ 3,889,574	\$ 5,552,356	\$ 1,662,782

Management's Discussion & Analysis

Capital Assets

Capital assets, including infrastructure, are those assets that are used in the performance of the Commission's functions and reservoir. As of June 30, 2024, the Commission's capital assets decreased by \$63,000 from \$726,000 in the prior year to \$663,000 (net of accumulated depreciation). This decrease was due to depreciation on assets as there were no significant additions in the current year.

More information on the Commission's capital assets can be found in Note 3 of these financial statements.

Request for Additional Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of San Luis Obispo, Department of Finance, 990 Palm Street, San Luis Obispo, California, 93401.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Whale Rock Commission
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and investments	\$ 5,713,938	\$ 5,003,065
Accrued interest receivable	26,605	16,382
Accounts receivables	17,775	227,594
Capital assets, net of accumulated depreciation	<u>663,072</u>	<u>726,355</u>
Total assets	<u>6,421,390</u>	<u>5,973,396</u>
LIABILITIES		
Accounts payable	135,422	38,036
Accrued salaries	17,087	13,568
Other liabilities	<u>53,453</u>	<u>66,343</u>
Total liabilities	<u>205,962</u>	<u>117,947</u>
Net Position		
Net investment in capital assets	663,072	726,355
Unrestricted	<u>5,552,356</u>	<u>5,129,094</u>
Total Net Position	<u><u>\$ 6,215,428</u></u>	<u><u>\$ 5,855,449</u></u>

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

Whale Rock Commission
Statements of Activities
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Expenses		
Reservoir operations	\$ 1,771,627	\$ 1,233,371
General government	274,372	190,501
Capital projects	577,105	176,959
Depreciation	<u>63,283</u>	<u>63,284</u>
Total expenses	<u>2,686,387</u>	<u>1,664,115</u>
Program Revenues		
Charges for services:		
Basic operating charges	1,242,781	1,126,924
Water distribution	<u>834,074</u>	<u>371,996</u>
Total program revenues	<u>2,076,855</u>	<u>1,498,920</u>
Net expense and program revenues	<u>(609,532)</u>	<u>(165,195)</u>
General Revenues and Transfers		
Use of money and property	267,853	60,750
CIP Contributions	693,550	810,312
Other revenues	<u>8,108</u>	<u>6,200</u>
Total general revenues and transfers	<u>969,511</u>	<u>877,262</u>
Increase in Net Position	<u>359,979</u>	<u>712,067</u>
Net Position - beginning of year	<u>5,855,449</u>	<u>5,143,382</u>
Net Position - end of year	<u><u>\$ 6,215,428</u></u>	<u><u>\$ 5,855,449</u></u>

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

FUND FINANCIAL STATEMENTS

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Whale Rock Commission**Balance Sheets****June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Assets		
Cash and investments	\$ 5,713,938	\$ 5,003,065
Accrued interest receivable	26,605	16,382
Accounts receivables	<u>17,775</u>	<u>227,594</u>
Total assets	<u><u>5,758,318</u></u>	<u><u>5,247,041</u></u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	135,422	38,036
Accrued salaries	17,087	13,568
Other liabilities	<u>53,453</u>	<u>66,343</u>
Total liabilities	<u>205,962</u>	<u>117,947</u>
Fund Balance		
Assigned for reservoir operations	409,199	284,774
Assigned for CIP	3,309,091	3,546,334
Unassigned	<u>1,834,066</u>	<u>1,297,986</u>
Total fund balance	<u>5,552,356</u>	<u>5,129,094</u>
Total Liabilities and Fund balance	<u><u>\$ 5,758,318</u></u>	<u><u>\$ 5,247,041</u></u>

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

Whale Rock Commission
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
For the years ended June 30, 2024

		<u>2024</u>
Total Fund Balances - governmental funds		\$ 5,552,356
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.		
Capital assets at estimated historical cost	\$ 1,872,520	
Accumulated depreciation	<u>(1,209,448)</u>	
		663,072
Total net position - governmental activities		<u><u>\$ 6,215,428</u></u>

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

Whale Rock Commission
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
For the years ended June 30, 2023

	<u>2023</u>
Total Fund Balances - governmental funds	\$ 5,129,094
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	
Capital assets at estimated historical cost	\$ 1,875,846
Accumulated depreciation	<u>(1,149,491)</u>
	726,355
Total net position - governmental activities	<u><u>\$ 5,855,449</u></u>

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

Whale Rock Commission
Statements of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
REVENUES:		
Use of money and property	\$ 267,853	\$ 60,750
CIP Contributions	693,550	810,312
Other revenue	8,108	6,200
Services:		
Basic operating charges	1,242,781	1,126,924
Water distribution	834,074	371,996
Total services	<u>2,076,855</u>	<u>1,498,920</u>
Total revenues	<u>3,046,366</u>	<u>2,376,182</u>
EXPENDITURES:		
Current:		
Reservoir operations	1,771,627	1,233,371
General government	274,372	190,501
Capital projects	577,105	176,959
Total curent expenditures	<u>2,623,104</u>	<u>1,600,831</u>
Total expenditures	<u>2,623,104</u>	<u>1,600,831</u>
Excess of revenues over expenditures	423,262	775,351
FUND BALANCES:		
Beginning of year	<u>5,129,094</u>	<u>4,353,743</u>
End of year	<u><u>\$ 5,552,356</u></u>	<u><u>\$ 5,129,094</u></u>

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

Whale Rock Commission
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the years ended June 30, 2024

	<u>2024</u>
Total excess of revenues over expenditures - governmental funds	\$ 423,262
Capital outlay net of depreciation expenses and disposal	
Depreciation expense	<u>\$ (63,283)</u>
	<u>(63,283)</u>
Total increase in net position - governmental activities	<u><u>\$ 359,979</u></u>

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

Whale Rock Commission
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the years ended June 30, 2023

		<u>2023</u>
Total excess of revenues over expenditures - governmental funds		\$ 775,351
Capital outlay net of depreciation expenses and disposal		
Depreciation expense	<u>\$ (63,284)</u>	<u>(63,284)</u>
Total increase in net position - governmental activities		<u><u>\$ 712,067</u></u>

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

Whale Rock Commission
Notes to Financial Statements
June 30, 2024 and 2023

Note 1: Summary of Significant Accounting Policies

Description of the Reporting Entity

The Whale Rock Commission (Commission) was established as a joint venture on December 12, 1960 to oversee, in a fiduciary capacity, the operations and routine maintenance of the Whale Rock Reservoir (Reservoir). The Commission is composed of six voting members and two non-voting members. Three voting members are appointed by the City of San Luis Obispo (City); one by the California Polytechnic State University; one by the California Men's Colony; and one by the Director of Finance, State of California. The two non-voting members are position appointments: the Director of Water Resources, State of California; and the Water Superintendent, City of San Luis Obispo. The Commission is authorized to establish policies for the operation of the Reservoir, to contract for the sale of excess water, and to approve its annual budget.

The City, in accordance with established policies of the Commission, operates and maintains the Reservoir; prepares and recommends the annual budget; and maintains the fiscal records and moneys of the Commission. Ownership in the Reservoir is as follows: 55.05%, City of San Luis Obispo; 33.71%, California Polytechnic State University; and 11.24%, California Men's Colony.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission.

The statement of activities demonstrates the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include

1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate fund financial statements are also provided.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The Commission considers interest earned but not received and billings to participating agencies earned but not received as susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The focus of financial measurement is upon available resources rather than net income determination.

Whale Rock Commission
Notes to Financial Statements
June 30, 2024 and 2023

Note 1: Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Basis of Presentation, (Continued)

The accounting policies of the Commission conform to generally accepted accounting principles. The accounts of the Commission are presented in the fund financial statements as a Governmental Fund. As the City maintains the accounting records and moneys of the Commission in a fiduciary capacity, the Commission's operating activities are accounted for in a separate fiduciary fund type (Custodial Fund) in the City's Annual Comprehensive Financial Report (ACFR). The operations of the fund are accounted for with a set of self-balancing accounts that comprise the Commission's assets, liabilities, fund equity, revenues, and expenditures. Commission resources are allocated to, and accounted for, as assets of the fund and equity to the participating agencies.

Budgets and Budgetary Accounting

As provided under the Whale Rock Agreement, the Commission has the sole responsibility for the adoption of the budget and may amend or supplement the budget at any time after its adoption. The budget is legally adopted prior to the commencement of the fiscal year and is prepared in accordance with generally accepted accounting principles. The Director of Finance of the City has the authority to make or approve administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year- end fund balances. Appropriations lapse at year-end unless such amounts are encumbered and reappropriated in the next fiscal year.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets are reported as part of the Commission. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The Commission does not have any intangible assets. Detailed information on the Commission's capital assets can be found in Note 3.

City of San Luis Obispo Services

Because the City accounts for the activities of the Commission, other services such as workforce and risk management are also provided by the City. The City's ACFR fully discusses pooled and self-insurance and how the City manages the risk of the Commission.

Whale Rock Commission
Notes to Financial Statements
June 30, 2024 and 2023

Note 1: Summary of Significant Accounting Policies (Continued)

New Pronouncements

In 2024, the Commission adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 100, Accounting Changes and Error Corrections-an Amendment of GASB Statement No. 62 – The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement did not apply to the Commission for the current fiscal year.
- GASB Statement No. 101, Compensated Absences – The primary objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The Commission has implemented this statement in current fiscal year.

Note 2: Cash and Investments

The Commission's cash and investments are pooled with those of the City. As provided for by the California Government Code, the cash balances of substantially all funds held by the City are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The Commission's share of the aggregate pooled cash and investments are recorded at fair value and included in the accompanying balance sheet under the financial statement caption cash and investments. Interest earned on pooled investments is allocated quarterly to the Commission based upon the Commission's average cash balance during the allocation period. Refer to Note 2 of the Notes to the Financial Statements of the City of San Luis Obispo as contained in the City's ACFR for further discussion of the nature of the City's pooled cash and investments and all related fair value disclosures.

Note 3: Capital Assets

Governmental Accounting Standards Board (GASB) standards require that the Commission report in the government-wide statements the value of all capital assets net of accumulated depreciation, including infrastructure assets, in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Infrastructure assets are defined as long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

The minimum requirement for compliance with GASB standards is to provide infrastructure valuations for all assets constructed, acquired, or placed into service on or after July 1, 1980. Relevant assets for the Commission were valued at one of two dates: 1) the original date of construction, if available, or 2) the incorporation date of the Commission. Each asset was reviewed to determine the adequacy of the data to value to asset prior to July 1, 1980 using historical cost or estimated historical cost.

Whale Rock Commission
Notes to Financial Statements
June 30, 2024 and 2023

Note 3: Capital Assets (Continued)

Capital assets activity for the fiscal year ended June 30, 2024 was as follows:

	Balance June 30, 2023	Increases	Decreases/ Transfers	Balance June 30, 2024
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Infrastructure	588,106	-	-	588,106
Buildings and improvements	1,092,285	-	-	1,092,285
Equipment	195,456	-	(3,626)	191,830
Accum. Depreciation	(1,149,492)	(63,283)	3,626	(1,209,149)
Total capital assets being depreciated, net	726,355	(63,283)	-	663,072
Capital assets, net	<u>\$ 726,355</u>	<u>\$ (63,283)</u>	<u>\$ -</u>	<u>\$ 663,072</u>

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

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Infrastructure	588,106	-	-	588,106
Buildings and improvements	1,092,285	-	-	1,092,285
Equipment	195,873	-	(417)	195,456
Accum. Depreciation	(1,086,625)	(63,284)	417	(1,149,492)
Total capital assets being depreciated, net	789,639	(63,284)	-	726,355
Capital assets, net	<u>\$ 789,639</u>	<u>\$ (63,284)</u>	<u>\$ -</u>	<u>\$ 726,355</u>

REQUIRED SUPPLEMENTARY INFORMATION

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Whale Rock Commission
Budgetary Comparison Schedule
Fiscal Year Ended June 30, 2024

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Use of money and property	\$ 1,000	\$ 1,000	\$ 267,853	\$ 266,853
CIP Contributions	693,949	693,949	693,550	(399)
Other revenues	6,000	6,000	8,108	2,108
Services:				
Basic operating charges	1,242,717	1,242,717	1,242,781	64
Water distribution	535,400	1,019,400	834,074	(185,326)
Total services	1,778,117	2,262,117	2,076,855	(185,262)
Total Revenues	2,479,066	2,963,066	3,046,366	83,300
Expenditures				
Current:				
Reservoir operations	1,500,955	2,023,959	1,771,627	252,332
General government	274,372	274,372	274,372	-
Capital projects	194,167	1,904,255	577,105	1,327,150
Total Expenditures	1,969,494	4,202,586	2,623,104	1,579,482
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	509,572	(1,239,520)	423,262	1,662,782
Commission Equity - beginning of year	5,129,094	5,129,094	5,129,094	-
Commission Equity - end of year	<u>\$ 5,638,666</u>	<u>\$ 3,889,574</u>	<u>\$ 5,552,356</u>	<u>\$ 1,662,782</u>

Whale Rock Commission
Notes to Required Supplementary Information
June 30, 2024

Budgetary Comparison Schedule

1. The budget is prepared using the modified accrual basis of accounting consistent with U.S. generally accepted accounting principles.
2. Outstanding encumbrances from the prior fiscal year are not reflected in the original budget column but are included in the final budget amounts.

**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**

Independent Auditor's Report

To Members of the Whale Rock Commission
San Luis Obispo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund information of the Whale Rock Commission (Commission), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 31, 2025.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting 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 did identify 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 item 2024-001 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 deficiencies described in the accompanying schedule of findings and responses as item 2024-002 to be significant deficiency.

Compliance and Other Matters

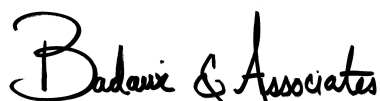
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

Whale Rock Commission's Response to Findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings. Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Badawi & Associates". The signature is stylized, with a large, looped initial 'B' and a cursive script for the rest of the name.

Badawi & Associates, CPAs
Berkeley, California
March 31, 2025

Whale Rock Commission

Schedule of Findings and Responses

For the year ended June 30, 2024

Section I – Current Year Findings

A. Financial Statement Audit Finding

2024-001 Journal Entries Posting (Material Weakness)

Criteria: The access to post journal entries in the general ledger should be restricted. Journal entries should be independently prepared, reviewed before being posted to the general ledger.

Condition: During the review of the City’s journal entry approval matrix and JE testing, we noted the posting from the subledger to GL do not require approvals at the general ledger level nor at the subledger level. Considering the number of employees who can post entries through subledger without review and the fact that corrections to payroll, payable, revenue/receivables, cash management, capital assets all can be posted through subledger and do not require approval, it increased the risk of unauthorized or incorrect journals get posted into general ledger.

Cause: The City didn’t have control in place to ensure all journal entries are properly reviewed before posting.

Effect: Journal entries recorded in the City’s accounting system may be inaccurate, unapproved, or unsupported.

Recommendation: We recommend that the City limit the number of employees who can post journal entries in the subledger and general ledger, and implement system control to ensure all journal entries are reviewed before posting.

Management’s response:

City management agrees with the recommendation and continues working with the internal IT team and consultants to modify the Oracle ERP system’s workflow to include approval for system-generated adjusting entries, which are currently posted automatically.

Approval for manually generated journal entries was implemented in FY 2021-22 and remains in place. While the City has approval controls for manual entries, a solution for system-generated adjustments is still in progress. This goal is considered partially implemented by City.

Whale Rock Commission

Schedule of Findings and Responses

For the year ended June 30, 2024

Section I – Current Year Findings, continued

A. Financial Statement Audit Finding, continued

2024-002 Payroll Module Implementation (Significant Deficiency)

Criteria: An effectively implemented payroll system should process the payroll accurately, and an effective internal control system over payroll requires timely and accurate payroll processing.

Condition: During the performance of the audit, we noted that –

- The Oracle payroll module has overtime configuration implemented incorrectly, and the City has to manually track the payroll in a spreadsheet and correct the error as it occurs since the implementation.
- The configuration of payroll journal entries posting was implemented incorrectly which caused the variance between the bank record and the City's general ledger.

Cause: The Oracle payroll module has not been implemented correctly.

Effect: Errors and fraud can go undetected in payroll processing with a large volume of manual corrections needed.

Recommendation: We recommend the City to work with the third-party vendor to correct the implementation of payroll module.

Management's Response:

City Management agrees with the finding and has engaged a consultant to reconfigure the payroll module to correct overtime calculations. Significant progress has been made in identifying and testing solutions, with full implementation expected during the 2024-25 fiscal year.

In the interim, the City continues to monitor payroll, manually correcting overtime issues each pay period. To enhance accuracy, staff has developed comprehensive training on time card entry and created Oracle Guided Learnings (OGLs) for real-time payroll module training. Additionally, the City has implemented the mandatory "Redwood" Oracle user interface upgrade, improving usability and time-tracking accuracy.

Configuration of the payroll journal entries was a one-time occurrence that has since been corrected

Whale Rock Commission

Schedule of Findings and Responses

For the year ended June 30, 2024

Section II – Prior Year Findings

A. Financial Statement Audit Finding

2023-001 Journal Entries Posting (Material Weakness)

Criteria: The access to post journal entries in the general ledger should be restricted. Journal entries should be independently prepared, reviewed before being posted to the general ledger.

Condition: During the review of the City’s journal entry approval matrix and JE testing, we noted the posting from the subledger to GL do not require approvals at the general ledger level nor at the subledger level. Considering the number of employees who can post entries through subledger without review and the fact that corrections to payroll, payable, revenue/receivables, cash management, capital assets all can be posted through subledger and do not require approval, it increased the risk of unauthorized or incorrect journals get posted into general ledger.

Cause: The City didn’t have control in place to ensure all journal entries are properly reviewed before posting.

Effect: Journal entries recorded in the City’s accounting system may be inaccurate, unapproved, or unsupported.

Recommendation: We recommend that the City limit the number of employees who can post journal entries in the subledger and general ledger, and implement system control to ensure all journal entries are reviewed before posting.

Status: See current year finding 2024-001.

Whale Rock Commission

Schedule of Findings and Responses

For the year ended June 30, 2024

Section II – Prior Year Findings, continued

A. Financial Statement Audit Finding, continued

2023-002 Payroll Module Implementation (Significant Deficiency)

Criteria: An effectively implemented payroll system should process the payroll accurately, and an effective internal control system over payroll requires timely and accurate payroll processing.

Condition: During the performance of the audit, we noted that –

- The Oracle payroll module has overtime configuration implemented incorrectly, and the City has to manually track the payroll in a spreadsheet and correct the error as it occurs since the implementation.
- The configuration of payroll journal entries posting was implemented incorrectly which caused the variance between the bank record and the City's general ledger.

Cause: The Oracle payroll module has not been implemented correctly.

Effect: Errors and fraud can go undetected in payroll processing with a large volume of manual corrections needed.

Recommendation: We recommend the City to work with the third-party vendor to correct the implementation of payroll module.

Status: See current year finding 2024-002.