

**LAKE OROVILLE AREA  
PUBLIC UTILITY DISTRICT**

**Financial Statements, Management Discussion and Analysis,  
and Independent Auditor's Report  
As of and for the Year Ended June 30, 2020**

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
AUDIT REPORT  
JUNE 30, 2020**

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## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors  
Lake Oroville Area Public Utility District  
Oroville, California

Members of the Board of Directors:

We have audited the accompanying financial statements of the Lake Oroville Area Public Utility District June 30, 2020, and the related notes to the financial statements which collectively comprise the District's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake Oroville Area Public Utility District as of June 30, 2020, and the change in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the schedule of proportionate share of net position liability, and the schedule of pension contributions, identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a basic part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The *schedule of revenues, expenses and changes in net position-budget vs. actual* as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the other supplementary information schedules as listed in the table of contents are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



**SingletonAuman PC**  
Susanville, California  
August 21, 2020

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2020**

**INTRODUCTION**

Lake Oroville Area Public Utility District's present operations include providing sewage collection and transmission services to residents of the District.

Our discussion and analysis of Lake Oroville Area Public Utility District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. It should be read in conjunction with the District's financial statements, including notes and supplementary information, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The net position was \$9,824,726 at June 30, 2020. This was an increase of \$369,995 from the prior year.
- Overall revenues were \$2,486,139 which were more than expenses of \$1,997,320 by \$369,995
- Debt has decreased by \$57,000, due to the annual payment on Series A Bonds.

**OVERVIEW OF FINANCIAL STATEMENTS**

The District's basic financial statements include five components:

- Statement of Net Position – Proprietary Fund
- Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund
- Statement of Cash Flows – Proprietary Fund
- Statement of Fiduciary Net Position – Agency Fund
- Notes to the Financial Statements

The **Statement of Net Position** includes all the District's assets and liabilities, with the difference between the two reported as Net Position. Net Position is displayed in three categories:

- Net investment in capital assets
- Restricted
- Unrestricted

This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents information which shows how the District's equity changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses, and changes in net position measures the success of the District's operations during the year and determines whether the District has recovered its costs through user fees and other charges.

The **Statement of Cash Flows** provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating Activities
- Noncapital Financing Activities
- Capital and Related Financing Activities
- Investing Activities

The **Statement of Fiduciary Net Position – Agency Fund** includes all of the District's Villa Verona Assessment District assets and liabilities.

This statement differs from the statements of revenues, expenses, and changes in equity by only accounting for transactions that result in cash receipts or cash disbursements.

The **Notes to Financial Statements** provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

## **FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

### **Net Position**

The District's net position was \$9,924,726 at June 30, 2020. See Table 1. The significant changes in Table 1 line items for fiscal 2020 vs 2019 are:

Cash increased as a result of revenues exceeding expenses. Additionally, all amounts owed to the sewerage commission for service charges were paid prior to June 30, 2020.

**Table 1: Net Position**

	<b>Business-Type Activities</b>		<b>Total %</b>
	<b>2020</b>	<b>2019</b>	<b>Change</b>
<b>Assets</b>			
Cash	\$ 2,032,867	\$ 1,817,208	11.87%
Accounts Receivable	1,019,237	851,298	19.73%
Other Current Assets	104,985	58,029	80.92%
Restricted Cash	1,423,320	1,527,602	-6.83%
Investment in Sewer Treatment Association	41,982	41,982	0.00%
Capital Assets, Net of Accumulated Depreciation	9,095,520	9,158,730	-0.69%
<b>TOTAL ASSETS</b>	<b>\$ 13,717,911</b>	<b>\$ 13,454,849</b>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Recognition of Contributions to Pension Plan	\$ 451,910	\$ 503,001	
<b>Current Liabilities:</b>			
Accounts Payable and Accrued Expenses	\$ 50,655	\$ 34,230	47.98%
Due to Other Funds	706	236	199.15%
Accrued Compensated Absences	101,420	67,292	50.72%
Due to Other Related Agency	-	218,585	N/A
Amounts payable from restricted assets:			
Bond Interest Payable	52,700	53,911	-2.25%
Current Portion of Bonds Payable	60,000	57,000	5.26%
<b>Total Current Liabilities</b>	<b>265,481</b>	<b>431,254</b>	
<b>Long Term Liabilities:</b>			
Bonds Payable	2,420,000	2,480,000	-2.42%
Net Pension Liability	1,484,215	1,420,199	4.51%
<b>Total Long Term Liabilities</b>	<b>3,904,215</b>	<b>3,900,199</b>	
<b>TOTAL LIABILITIES</b>	<b>\$ 4,169,696</b>	<b>\$ 4,331,453</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Recognition of Pension Plan Earnings	\$ 75,399	\$ 71,682	
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 6,615,520	\$ 6,621,730	-0.09%
Restricted	1,423,320	1,527,602	-6.83%
Unrestricted	1,885,886	1,405,383	34.19%
<b>TOTAL NET POSITION</b>	<b>\$ 9,924,726</b>	<b>\$ 9,461,208</b>	



## Changes in Net Position

The District's total revenues were \$2,486,139. A majority of the revenue comes from Service Charges (64%). The Rural Development Loan Surcharge accounted for 15% of the total revenues. The total cost of all services was \$2,010,744. Charges for Services increased due to an increase in utility rates.

**Table 2:  
Changes in Net Position**

	Business-Type Activities		Total Percentage
	2020	2019	Change 2020-2019
<b>Revenues</b>			
Operation Revenues:			
Charges for Services	\$ 1,585,405	\$ 1,333,994	18.85%
Special Assessment	44,966	44,966	0.00%
General Revenues			
Taxes	330,967	315,384	4.94%
Interest Income and Late Fees	105,956	91,708	15.54%
Capacity Charges	42,993	47,770	-10.00%
Rural Development Loan Surcharge	362,017	361,576	0.12%
Miscellaneous	13,835	12,607	9.74%
<b>TOTAL REVENUES</b>	<u>2,486,139</u>	<u>2,208,005</u>	
Operation Expenses:			
Administration and General	766,671	788,113	-2.72%
Sewage Collection Services	722,231	717,155	0.71%
Depreciation	521,842	501,407	4.08%
Other Expenses			
Bond Interest Expense	105,400	107,823	-2.25%
<b>TOTAL EXPENSES</b>	<u>2,116,144</u>	<u>2,114,498</u>	
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>\$ 369,995</u>	<u>\$ 93,507</u>	295.69%

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The overall financial performance of the District as a whole is reflected in the communication between the Board of Directors and the District employees as they all work together in providing the best quality of service to its customers.

### Budgetary Highlights

The District prepares a preliminary budget in May or June of each fiscal year. A final budget is adopted by the Board in August. A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental information section of the audited financial report.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2020, the District had invested \$9,158,730 in a broad range of capital assets, including land and surface lines. See Table 4. More detailed information about the District's capital assets is presented in the notes to the financial statements.

**Table 4**  
**Capital Assets**

	Business-Type Activities		Total Percentage
	2020	2019	Change 2020-2019
Land	\$ 107,174	\$ 107,174	0.00%
Work in Progress	84,792	-	
Subsurface Lines	13,865,710	13,865,710	0.00%
General Plant and Admin. Facilities	4,100,047	3,743,288	9.53%
Sewer Collection Facility	4,434,824	4,434,824	0.00%
Totals at Historical Cost	<u>22,592,547</u>	<u>22,150,996</u>	
Total Accumulated Depreciation	<u>(13,497,025)</u>	<u>(12,992,264)</u>	3.89%
<b>NET CAPITAL ASSETS</b>	<u><b>\$ 9,095,522</b></u>	<u><b>\$ 9,158,732</b></u>	

### Long-Term Debt

At year end, the District had \$3,840,199 in long-term debt, consisting of Series A - Sewer Revenue Bonds and Net Pension Liability, as shown in Table 5. More detailed information about the District's debt is presented in the notes to the financial statements.

**Table 5  
Long-Term Debt**

	Business-Type Activities		Total Percentage Change
	2020	2019	2020-2019
Net Pension Liability	\$ 1,420,199	\$ 1,420,199	0.00%
Sewer Revenue Bonds-Series A	2,420,000	2,480,000	-2.42%
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 3,840,199</b>	<b>\$ 3,864,892</b>	<b>-0.64%</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

At the time these financial statements were prepared and audited, the District was aware of circumstances that could affect its future financial health, specifically:

- The State of California PERS unfunded liability will most likely result in retirement benefit cost increases in future years.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

Lake Oroville Area Public Utility District  
 Scott McCutcheon, General Manager  
 1960 Elgin Street  
 Oroville, CA 95966  
 (530) 533-2000

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2020**

	<u>Enterprise Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 2,032,867
Accounts Receivable	940,773
Taxes Receivable	78,464
Inventory	15,599
Prepaid Expenses	79,995
Accrued Interest	9,391
Total Current Assets	<u>3,157,089</u>
Restricted and Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,423,320
Investment in Sewer Treatment JPA	41,982
Capital assets, net of accumulated depreciation	9,095,520
Total Restricted and Noncurrent Assets	<u>10,560,822</u>
Total Assets	<u>\$ 13,717,911</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows - Pension Plan	<u>\$ 451,910</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable and other current liabilities	\$ 50,655
Due to other fund	706
Accrued Compensated absences	101,420
Amounts payable from restricted assets:	
Bond interest payable	52,700
Current portion - bonds payable	60,000
Total Current Liabilities	<u>265,481</u>
Long-Term Liabilities	
Net Pension Liability	1,484,215
Bonds Payable	2,420,000
Total Long-Term Liabilities	<u>3,904,215</u>
Total Liabilities	<u>\$ 4,169,696</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows - Pension Plan	<u>\$ 75,399</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 6,615,520
Restricted	1,423,320
Unrestricted	1,885,886
Total Net Position	<u>\$ 9,924,726</u>

The accompanying notes are an integral part of this statement.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Enterprise Fund</u>
Operating Revenues:	
Sewer service charges	\$ 1,443,998
Pumping charges	128,083
Connection & inspection fees	13,324
Special Assessment - Kelly Ridge	44,966
Total Operating Revenue	<u>1,630,371</u>
Operating Expenses:	
Administration and general	766,671
Sewage collection services	722,231
Depreciation	521,842
Total Operating Expense	<u>2,010,744</u>
Net Operating Income (Loss)	(380,373)
Nonoperating Revenues (Expenses)	
Property Tax	330,967
Interest income and late fees	105,956
Capacity charges	42,993
Rural Development loan surcharges	362,017
Miscellaneous	13,835
Bond Interest Expense	(105,400)
Net Nonoperating Revenue	<u>750,368</u>
Change in Net Position	<u>369,995</u>
Net Position Beginning	<u>9,554,732</u>
Net Position Ending	<u><u>\$ 9,924,726</u></u>

The accompanying notes are an integral part of this statement.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,434,692
Other income	44,966
Cash paid to employees for service	(1,005,744)
Cash paid to suppliers	(639,889)
Net Cash Provided (Used) By Operating Activities	<u>(165,975)</u>
Cash Flows from Non-Capital Financing Activities:	
Miscellaneous nonoperational receipts	13,835
Property Taxes	313,741
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>327,576</u>
Cash Flows from Capital and Related Financing Activities:	
Additions to property, plant and equipment	(458,616)
Capacity charges received	42,993
Principal paid on Capital Debt	(57,000)
Interest Paid on Capital Debt	(100,382)
Rural development loan surcharges	362,017
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(210,988)</u>
Cash Flows from Investing Activities:	
Deferred Outflows/Inflows	54,808
Interest on investments and customer late fees	105,956
Net Cash Provided (Used) by Investing Activities	<u>160,764</u>
Net Increase (Decrease) in Cash	<u>111,377</u>
Cash Balance - July 1, 2019	<u>3,344,810</u>
Cash Balance - June 30, 2020	<u>\$ 3,456,187</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (380,373)
Adjustments to reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	521,842
Change in Assets and Liabilities:	
(Increase)/decrease in receivables	(150,713)
(Increase)/decrease in inventories	(4,801)
(Increase)/decrease in prepaid assets	(48,384)
Increase/(decrease) in payables	(201,690)
Increase/(decrease) in accrued compensated absences	34,128
Increase/(decrease) in net pension liabilities	64,016
Net Cash Provided/(Used) by Operating Activities	<u>\$ (165,975)</u>

The accompanying notes are an integral part of this statement.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
STATEMENT OF NET POSITION  
AGENCY FUND  
JUNE 30, 2020**

	Villa Verona Assessment District Agency Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 31,539
Due from other fund	236
Assessments receivable - current	19,782
Assessments receivable - delinquent	4,033
Total Assets	\$ 55,590
 <b>LIABILITIES</b>	
Current Liabilities:	
Easements payable	\$ 2,703
Due to bondholders	52,887
Total Current Liabilities	\$ 55,590
 <b>NET POSITION</b>	
Unrestricted	\$ -
Total Net Position	\$ -

The accompanying notes are an integral part of this statement.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Lake Oroville Area Public Utility District (District) is a California Public Utility District that was organized on June 27, 1938. It provides sewage collection and transmission services to residents of the Kelly Ridge and other eastern Oroville areas.

**A. Definition of the Reporting Entity**

The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement 39, include:

- The organization is legally separate (can sue and be sued in their own name).
- The District holds the corporate powers of the organization.
- The District appoints a majority of the organization's governing board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the District.
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the Lake Oroville Area Public Utility District has no component units.

**B. Basis of Accounting and Financial Statement Presentation**

The District accounts for its operations and activities as a utility enterprise fund. The enterprise fund is operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user service charges.

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the District are charges to customers for sales and services including operating charges collected through special assessments on certain property tax rolls. Operating expenses for the District include salaries and benefits, supplies and other services, and insurance premiums.

Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows actually take place.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

**Fiduciary Fund**

Agency Fund - Agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.



**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

C. Inventory

Inventories are valued at cost using the average cost method.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash, Cash Equivalents, and Investments

For the purposes of the statement of cash flows, the District's proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments at June 30, 2020 are stated at fair value.

F. Restricted Assets

The District has presented restricted cash for amounts received from the District's capacity charge and rural development surcharge. These amounts have been classified as restricted assets on the statement of net position because their use is limited by applicable bond or other covenant.

G. Interfund Receivables and Payables

The purpose of the interfund balance is to reflect the District's collections of Villa Verona special assessments that will be transferred to the Villa Verona bank account at a future date. The amount due to Villa Verona Special Assessment from the District at June 30, 2020 was \$706.

H. Bad Debts

It is the District's policy to collect past due accounts by adding such amounts to the County of Butte's property tax rolls. As such, it is management's opinion that past due accounts are, in all material respects, fully collectible, and no allowance for doubtful accounts has been recorded on the accompanying financial statements.

I. Capital Assets

Property and equipment with a life greater than one year are capitalized and stated at cost, except for portions acquired by contribution, which are reported at the agreed upon cost to the donee, which equates fair market value. It is the District's policy to capitalize individual items costing more than \$5,000. Maintenance and repair costs are expensed as incurred unless they extend the asset's useful life. Depreciation is computed using the straight-line method over asset estimated useful lives as presented below:

Subsurface lines	50 years
Sewage collection	10 - 50 years
General plant and Administrative Facilities	3 - 30 years

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

*Construction-in-progress* – Costs associated with development stage projects are accumulated in the construction-in-progress account until the project is fully developed. Once the project is complete, the entire cost of the project is transferred to a capital asset account and depreciated over the estimated useful life.

**J. Accrued Compensated Absences**

All probationary and permanent employees of the District earn sick leave at a rate of one eight hour working day per month and can accrue an unlimited number of hours. At the employees' request unused sick leave time may be "bought back" by the District at a rate of one-half (1/2) day for each whole day accrued. Buy back shall be limited only to time over and above thirty (30) days of accrued sick leave. No more than 12 days of accrued sick leave shall be bought back in any given calendar year unless employment is voluntarily terminated, in which case all accrued sick leave may be "bought back" by the District at a rate of one-half day for each whole day accrued.

Vacation is based upon the length of service. The District will buy back accumulated vacation of an employee upon termination or retirement from the District.

**K. Subsequent Events**

Subsequent events were evaluated through August 21, 2020 which is the date the financial statements were available to be issued.

**NOTE 2 CASH AND INVESTMENTS**

Cash and investments at June 30, 2020 consisted of the following:

Cash on Hand	\$ 500
Deposits with Financial Institutions	662,415
Deposit with LAIF	<u>2,793,272</u>
Total Cash and Cash equivalents	<u>\$ 3,456,187</u>

Investment Policies - The District may invest in the following types of investments:

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

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

**Credit Risk**

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

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**Custodial Credit Risk**

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

The District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. The amounts in excess of federal depository insurance limits were \$3,001 as of June 30, 2020 and the remaining amounts were collateralized as described above.

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**Investment in State Investment Pool**

The District is a voluntary participant in LAIF. LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 3 PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The District relies on the competency of the County of Butte for the billing, collection, and distribution of its share of property tax revenues.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 4 CAPITAL ASSETS**

A summary of changes in capital assets follows:

Subsurface lines	13,865,710			13,865,710
Sewer collection facilities	4,434,824			4,434,824
General plant and administration facilities	3,743,288	373,841	(17,082)	4,100,047
Work in Progress		84,792		84,792
	<u>22,150,996</u>	<u>458,633</u>	<u>(17,082)</u>	<u>22,592,547</u>
<b>Accumulated Depreciation</b>				
Subsurface lines	(7,258,697)	(412,957)		(7,671,654)
Sewer collection facilities	(3,442,512)	(10,914)		(3,453,426)
General plant and administration facilities	(2,291,055)	(97,972)	17,082	(2,371,945)
Accumulated Depreciation	<u>(12,992,264)</u>	<u>(521,843)</u>	<u>17,082</u>	<u>\$ (13,497,025)</u>
Property and Equipment, Net	<u>\$ 9,158,732</u>	<u>\$ (63,210)</u>	<u>\$ -</u>	<u>\$ 9,095,522</u>

**NOTE 5 LONG-TERM DEBT - BONDS**

Changes in Long-Term Liabilities – Long-term liability activity, excluding the liability for compensated absences and net pension liability is summarized as follows:

	Balance			Balance	Due Within
	June 30, 2019	Additions	Reductions	June 30, 2020	One Year
Sewer Revenue Bonds - Series A	\$ 2,537,000	-	\$ (57,000)	\$ 2,480,000	\$ 60,000
Total Long-Term Liabilities-Bonds	<u>\$ 2,537,000</u>	<u>-</u>	<u>\$ (57,000)</u>	<u>\$ 2,480,000</u>	<u>\$ 60,000</u>

Sewer Revenue Bonds – The District authorized the issuance of \$5,000,000 in Lake Oroville Area Public Utility District Sewer Revenue Bonds (Bonds). The Bonds were issued in two separate series. All the bonds were purchased by the USDA Rural Development through its Rural Utilities Service. The Bonds are secured by a first lien and a pledge of all revenues of the enterprise fund to repay the Bonds.

The District assessed a “Rural Development Loan Surcharge” for the purpose of making bond principal and interest payments and established required debt service reserves.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

The Series A bonds accrue interest at a rate of 4.25% per annum. "Series A" requires annual principal payments ranging from \$29,000 to \$163,000 each July 1 through the year 2043. Interest is paid semi-annually on January 1 and July 1. Total "Series A" bonds outstanding at June 30, 2020, was \$2,480,000.

Debt service requirements to maturity are as follows:

Year Ended June 30,	Sewer Revenue Bonds		
	Principal	Interest	Total
2021	60,000	105,400	165,400
2022	62,000	102,850	164,850
2023	65,000	100,215	165,215
2024	68,000	97,453	165,453
2025-2029	389,000	441,235	830,235
2030-2034	483,000	350,923	833,923
2035-2039	602,000	238,595	840,595
2040-2044	751,000	98,515	849,515
Totals	<u>\$ 2,480,000</u>	<u>\$ 1,535,186</u>	<u>\$ 4,015,186</u>

**NOTE 6 SPECIAL ASSESSMENTS DISTRICT**

The District acts as agent for the property owners of the Villa Verona Assessment District in collecting assessments, forwarding the collections to the assessment bond holders, and initiating foreclosure proceedings when required. The District is not obligated in any manner for the repayment of the special assessment debt. At June 30, 2020 the Villa Verona Assessment District had \$170,000 in bonds payable.

**NOTE 7 DEFERRED COMPENSATION PLANS**

The District offers its full-time employees two deferred compensation plans created in accordance with Internal Revenue Code 457. The plans are available to all District employees, which permits them to defer a portion of their salary until future years. Employees may participate in all two plans; however, the District will only contribute to the PERS 457 Plan. This contribution amounts to 2% of the employee's salary only if the employee is matching 2% into the PERS 457 Plan, effective July 1, 2019. The PERS 457 Plan and District match began July 1, 2008. Amounts credited to deferred compensation are deposited in savings or other type of investment accounts with Voya, Nationwide, and PERS. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributed to those amounts, property, or rights are held in trust for the exclusive benefit of the plan participants and their beneficiaries. As required by GASB Statement 32, the District does not meet the criteria for inclusion of plan assets within its financial statements and has, therefore, excluded the plan assets from the accompanying financial statements.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

The following is a summary of plan activity for the year ended June 30, 2020:

	<u>2020</u>
Market Value - July 1	\$ 329,869
Employee Contributions	22,074
Employer Contributions	22,074
Plan Earnings	23,080
Withdrawals/Fees	<u>(15,631)</u>
Market Value - June 30	<u>\$ 381,466</u>

**NOTE 8 DEFINED BENEFIT PENSION PLAN**

**A. General Information about the Pension Plans**

**Plan Description**

The District approved a contract with the Board of Administration, California Public Employees' Retirement System (PERS) on March 16, 2004, which began May 1, 2004. The District is required to make a monthly contribution to PERS to include actuarial valuations of prior and future years of service of each employee. All eligible District employees participate in PERS. The District is required to participate in a PERS cost-sharing, multiple-employer defined benefit retirement plan, since the District had less than 100 active members. PERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

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

All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plan (Plan) which is administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

Hire Date	<u>Prior to January 1, 2014</u>	<u>On or After January 1, 2014</u>
Benefit formula	2.7 % @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	62-67
Monthly benefits as % of eligible compensation	2.0 to 2.7 %	1.0 to 2.5 %
Required employee contributions	8%	8%
Required employer contributions rates	27.80%	11.40%

**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 the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2020, the contributions recognized as part of pension expense for the Plan was as follows:

Contributions-Employer	\$ 175,489
Contributions-Employee	\$ 37,201

As of June 30, 2020, the District reported net pension liability of \$1,420,199 for its share of the net pension liability of the Plan. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020, 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, 2019, rolled forward to June 30, 2020, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2020 and 2020, were as follows:

Proportion:	June 30, 2019	0.03768%
Proportion:	June 30, 2020	<u>0.03706%</u>
Change-Increase (Decrease)		-0.00062%

For the year ended June 30, 2020, the District recognized pension expense of \$175,489. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

	Deferred Outflows of Resources	Deferred Inflow of Resources
Difference between Expected and Actual Experience	\$ 70,774	\$ 25,089
Change in Assumptions	103,085	7,987
Difference Between Expected and Actual Experience		25,949
Difference Between Expected and Actual Investment Earnings		
Difference Between Employer's Contributions and Proportionate Share of Contributions	81,278	
Change in Employer's Proportion	21,283	16,374
Contributions Subsequent to the Measurement Date	175,489	
Total	\$ 451,909	\$ 75,399

The \$175,489, which is reported as contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2021	\$ 164,401
2022	12,190
2023	19,187
2024	5,243
2025	-
Thereafter	-
	\$ 201,021



**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

***Actuarial Assumptions***

The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions for the all Plans:

Valuations Date	June 30, 2018
Measurement Date	June 30, 2019
	Entry Age
Actuaial Cost Method	Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3%-14.2% (1)
Investment Rate of Return	7.15% (2)

(1) Depending on entry age and service

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital marked assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>1</sup>	Real Return years 11 + <sup>2</sup>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period

***Discount Rate***

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability/(asset) of the Plan as of the measurement date using the discount rate of 7.15%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Net Pension Liability:	\$ 1,993,157	\$ 1,484,215	\$ 1,064,119

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CalPERS which can be located at <https://www.calpers.ca.gov/page/forms-publications>.

**NOTE 9 RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the District's policy to transfer the risks that may arise from these and other events through the purchase of commercial insurance. Over the past three years, no loss settlements have exceeded insurance coverage amounts.

**NOTE 10 JOINT POWERS AGREEMENT**

On March 29, 1973, the District, the City of Oroville, and the Thermalito Water and Sewer District entered into a Joint Exercise of Powers Agreement that reorganized its governing board and created an independent Agency known as the Sewerage Commission - Oroville Region (SC-OR). SC-OR was created to operate a sewerage treatment plant for the mutual advantage of the member entities. The District presently reports \$41,982 (its original contribution to SC-OR) as an investment. The Fair Market Value is not materially different from cost.

Two members (only one with voting powers) of SC-OR's Board of Commissioners are appointed by each member entity. SC-OR's operating and capital budgets are funded by user charges for sewage

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

treatment services provided to the residents of each member entity. Each member entity is responsible for billing, collecting, and remitting SC-OR's user charges applicable to their separate residents. The District held \$0.00 in unremitted SC-OR service charges at June 30, 2020.

SC-OR's separate financial statements may be obtained by contacting its administrative offices at:

P.O. Box 1350  
Oroville, CA 95965

Noted below is the summarized financial information of SC-OR as of June 30, 2019 which is the latest report available at the time these financial statements were prepared:

	<u>June 30, 2019</u>
Total Assets	\$ 21,470,239
Deferred Outflows	573,044
Total Liabilities	(2,198,234)
Deferred Inflows	(110,970)
Net Position	\$ 19,734,079
Total Revenues	\$ 4,923,330
Total Expenses	2,901,702
Change in Net Position	\$ 2,021,628

**NOTE 11 RESTRICTED NET POSITION**

The District has restricted a portion of its net position to segregate funds restricted for use by external sources as follows:

	<u>2020</u>
Restricted for capacity capital outlay	\$ 1,196,447
Restricted for rural development loan surcharge	226,873
Total restricted Net Position	\$ 1,423,320

**NOTE 12 EXPENSES IN EXCESS OF BUDGET**

The following expense categories exceeded budgeted amounts:

Salaries and Wages	\$ 7,184	Due to unanticipated costs
Employee Benefits	\$ 59,220	Due to adjusting net pension liability

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**SCHEDULE OF THE LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
 (MISCELLANEOUS PLAN)**

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
District's Proportion of the Net Pension Liability/(Asset)	0.015690%	0.020923%	0.020923%	0.020130%	0.037684%	0.037060%
District's Proportionate Share of the Net Pension Liability/(Asset)	\$ 976,118	\$ 1,003,745	\$ 1,158,278	\$ 1,272,892	\$ 1,420,199	\$ 1,484,215
District's Covered-Employee Payroll	\$ 505,421	\$ 475,618	\$ 553,431	\$ 579,643	\$ 574,942	\$ 580,970
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	193.13%	211.04%	209.29%	219.60%	247.02%	255.47%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	81.15%	62.66%	59.79%	71.76%	77.69%	67.91%

**Notes to Schedule:**

Only six years are presented because 10-year data is not yet available.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
SCHEDULE OF PENSION CONTRIBUTIONS  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
(MISCELLANEOUS PLAN)**

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Actuarially Determined Contribution	\$ 128,957	\$ 137,556	\$ 130,420	\$ 145,114	\$ 150,275	\$ 175,489
Contributions in Relation to the Actuarially Determined Contribution	<u>(128,957)</u>	<u>(130,422)</u>	<u>(138,431)</u>	<u>(145,114)</u>	<u>(150,275)</u>	<u>(175,489)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 7,134</u>	<u>\$ (8,011)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 505,421	\$ 475,618	\$ 553,431	\$ 579,643	\$ 574,942	\$ 580,970
Contributions as a Percentage of Covered-Employee Payroll	25.51%	27.42%	27.57%	25.04%	26.14%	30.21%
Valuation date	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019

**Notes to Schedule:**  
Only six years are presented because 10-year data is not yet available.

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**OTHER SUPPLEMENTARY INFORMATION**

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**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Sewer service charges	\$ 1,445,968	\$ 1,443,998	\$ (1,970)
Pumping charges	125,547	128,083	2,536
Connection fees		13,324	13,324
Special Assessment - Kelly Ridge	45,000	44,966	(34)
<b>Total Operating Revenue</b>	<b>1,616,515</b>	<b>1,630,371</b>	<b>13,856</b>
<b>Operating Expenses:</b>			
SALARIES AND WAGES	610,205	617,389	(7,184)
Employee benefits	427,279	486,499	(59,220)
Professional services	153,500	144,383	9,117
Utilities	91,740	55,546	36,194
Services and supplies	103,920	59,524	44,396
Training, memberships, and fees	63,311	31,669	31,642
Operations and maintenance	109,390	61,366	48,024
Fuel, oil, grease and auto	58,432	32,526	25,906
Depreciation (non-cash budgeted item)	550,656	521,842	28,814
<b>Total Operating Expenses</b>	<b>2,168,433</b>	<b>2,010,744</b>	<b>157,689</b>
<b>Net Operating Income</b>	<b>(551,918)</b>	<b>(380,373)</b>	<b>171,545</b>
<b>Nonoperating Revenues (Expenses):</b>			
Taxes	245,601	330,967	85,366
Interest income and late fees	19,386	105,956	86,570
Capacity charges		42,993	42,993
Rural Development loan surcharges	361,796	362,017	221
Miscellaneous		13,835	13,835
Bond Interest Expense	(106,611)	(105,400)	1,211
<b>Total Non Operating Revenues (Expenses)</b>	<b>520,172</b>	<b>750,368</b>	<b>230,196</b>
<b>Other Budgeted Items:</b>			
Capitalized costs	(210,702)	-	210,702
Bond principal payments	(57,000)	(57,000)	-
<b>Total Other Budgeted Items</b>	<b>(267,702)</b>	<b>(57,000)</b>	<b>210,702</b>
<b>Net Income (Loss) - Budget Basis</b>	<b>\$ (299,448)</b>	<b>\$ 312,995</b>	<b>\$ 612,443</b>



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

Board of Directors  
Lake Oroville Area Public Utilities District  
Oroville, California

Members of the Board of Directors:

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 Controller General of the United States, the financial statements of the business-type activities, and each major fund of the Lake Oroville Area Public Utility as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the district's basic financial statements and have issued our report thereon dated August 21, 2020.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. See Finding 2020-1.

**Susanville:**

1740 Main Street, Suite A, Susanville, CA 96130  
530.257.1040 Fax: 530.257.8876

sa@sa-cpas.com  
www.sa-cpas.com

**Chester:**

PO Box 795, Chester, CA 96020  
530.258.2272 Fax: 530.258.2282

## **Compliance and Other Matters**

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

## **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District'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 the Report**

This 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



**SingletonAuman, PC**  
Susanville, California  
August 21, 2020

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**LAKE OROVILLE ARE PUBLIC UTILITY DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**EXECUTIVE SUMMARY**

The District provides sewer services to residential and commercial customers within the boundaries of the District.

The quality of the District's internal controls is dependent upon oversight by the Board Members. Also, due to the limited number of employees of the District, there is an inability to segregate the custody of and accountability for District assets in the manner generally required for model systems of internal accounting controls. A summary of the auditors' results follows:

1. **Type of Auditors' Report on Financial Statements:** Unmodified.
2. **Internal Control Findings:** 1 Material Weakness.
3. **Material Noncompliance Noted:** None.

**LAKE OROVILLE ARE PUBLIC UTILITY DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**YELLOW BOOK SECTION  
Material Weakness**

**Finding 2019-1 Financial Reporting**

**Criteria Upon Which Audit Finding is Based (Legal Citation)**  
AU-C Section 265

**Finding (Condition)**

Similar to many other small special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

**Amount of Questioned Cost, How Computed and Prevalence**  
None.

**Effect**

There is a risk that a material financial statement misstatement may exist and not be prevented or detected by the District's system of internal control.

**Cause**

This condition has always existed at the District, and is being reported in accordance with AU-C Section 265.

**Recommendation**

We recommend that the District should consider the cost benefit of hiring an accountant familiar with GAAP or hiring an independent CPA firm to compile financial statements in conformity with GAAP.

**District's Response**

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

**LAKE OROVILLE ARE PUBLIC UTILITY DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2020**

**Finding 2019-1**

Similar to many other small special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, MD&A and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

**Status**

Not Implemented – See current year finding 2020-1.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
CORRECTIVE ACTION PLAN  
JUNE 30, 2020**

**Person Monitoring Corrective Action Plan**  
Scott McCutcheon, District Manager

**Finding 2020-1 Financial Reporting**

**Finding (Condition)**

Similar to many other small special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

**Corrective Action Planned**

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

**Expected Completion Date**

Ongoing.