

**LAKE OROVILLE AREA  
PUBLIC UTILITY DISTRICT**

**AUDIT REPORT  
JUNE 30, 2016**

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
AUDIT REPORT  
JUNE 30, 2016**

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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, 2016, 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.

## **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, 2016, 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, 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 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 October 20, 2016 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  
November 14, 2016

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2016**

**INTRODUCTION**

Lake Oroville Area Public Utility District's present operations include providing sewage 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, 2016. 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 \$8,483,045 at June 30, 2016. This was an increase of \$ \$88,584 from the prior year.
- ❑ Overall revenues were \$2,005,834 which were more than expenses of \$1,917,250 by \$88,584.
- ❑ Debt has decreased by \$49,373, due primarily to the payment of bond principle.

**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 Proprietary Fund** includes all the District's assets and liabilities, with the difference between the two reported as Net Position. Net Positions are 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 – Proprietary Fund** 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 Proprietary Fund** 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 \$8,483,045 at June 30, 2016. See Table 1. The significant changes in Table 1 line items for fiscal 2016 vs 2015 are:

- Cash increased due to careful budgeting and cost control by the District.
- Accounts Receivable increased due to the timing of billing for June 2016.

**Table 1: Net Position**

	<b>Business-Type Activities</b>		<b>Total %</b>
	<b>2016</b>	<b>2015</b>	<b>Change</b>
<b>Assets</b>			
Cash	\$ 961,809	\$ 896,804	7.25%
Accounts Receivable	639,327	161,008	297.08%
Other Current Assets	96,438	105,806	-8.85%
Restricted Assets	1,755,731	1,756,204	-0.03%
Investment in Sewer Treatment Association	41,982	41,982	0.00%
Capital Assets, Net of Accumulated Depreciation	10,636,404	11,159,433	-4.69%
<b>TOTAL ASSETS</b>	<b>\$ 14,131,691</b>	<b>\$ 14,121,237</b>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Recognition of Contributions to Pension Plan	\$ 185,647	\$ 137,556	
<b>Current Liabilities:</b>			
Accounts Payable and Accrued Expenses	\$ 49,013	\$ 22,702	115.90%
Due to Other Funds	652	266	145.11%
Accrued Compensated Absences	66,956	49,178	36.15%
Due to Other Related Agency	187,138	192,654	-2.86%
Amounts payable from restricted assets:			
Bond Interest Payable	93,563	95,235	-1.76%
Current Portion of Bonds Payable	80,000	77,000	3.90%
<b>Total Current Liabilities</b>	<b>477,322</b>	<b>437,035</b>	
<b>Long Term Liabilities:</b>			
Bonds Payable	4,228,000	4,308,000	-1.86%
Net Pension Liability	1,003,745	976,118	2.83%
<b>Total Long Term Liabilities</b>	<b>5,231,745</b>	<b>5,284,118</b>	
<b>TOTAL LIABILITIES</b>	<b>\$ 5,709,067</b>	<b>\$ 5,721,153</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Recognition of Pension Plan Earnings	\$ 125,226	\$ 143,179	-12.54%
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 6,328,404	\$ 6,774,433	-6.58%
Restricted	1,755,731	1,756,204	-0.03%
Unrestricted	398,910	(136,176)	-392.94%
<b>TOTAL NET POSITION</b>	<b>\$ 8,483,045</b>	<b>\$ 8,394,461</b>	



## Changes in Net Position

The District's total revenues were \$2,005,834. A majority of the revenue comes from Service Charges (62%). The Rural Development Loan Surcharge accounted for 18% of the total revenues.

The total cost of all services was \$1,917,205. Administration and General increased due to the addition of a part-time Administrative Aide in the office and the hiring of a Utility Worker to fill a field position that had been vacated during the prior year. Scheduled wage step increases and cost of living raises also attributed to cost increase experienced in fiscal year 2015/16.

Sewage Collection increased due to purchases, upgrades, and repairs that needed to be made. The District replaced aging computers and software, and purchased software additions for the current billing software. GPS mapping equipment was purchased to begin collecting survey data needed to map the District's sewer infrastructure. An extensive water Inflow and Infiltration repair plan increased material purchases from the previous year. During this repair work the District mobile equipment fleet was utilized more and required more mechanical repairs than the previous years.

**Table 2: Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2016-2015</u>
Revenues			
Operation Revenues:			
Charges for Services	\$ 1,235,045	\$ 1,153,387	7.08%
Special Assessment	45,025	44,739	0.64%
General Revenues			
Taxes	267,313	253,023	5.65%
Interest Income and Late Fees	31,337	30,316	3.37%
Capacity Charges	47,770	12,641	277.90%
Rural Development Loan Surcharge	353,868	353,481	0.11%
Miscellaneous	25,476	15,830	100.00%
<b>TOTAL REVENUES</b>	<u>2,005,834</u>	<u>1,863,417</u>	
Operation Expenses:			
Administration and General	558,812	519,095	7.65%
Sewage Collection Services	627,304	579,143	8.32%
Depreciaton	544,009	568,032	-4.23%
General Expenses			
SC-OR excess flow charges	-	37,446	-100.00%
Bond Interest Expense	187,125	190,470	185.61%
<b>TOTAL EXPENSES</b>	<u>1,917,250</u>	<u>1,894,186</u>	
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>\$ 88,584</u>	<u>\$ (30,769)</u>	387.90%

## 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. As the District completed the year, its funds reported equity of \$8,483,045.

### 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, 2016, the District had invested \$22,151,026 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		Change
	2016	2015	2016-2015
Land	\$ 107,174	\$ 107,174	0.00%
Subsurface Lines	13,865,710	13,865,710	0.00%
General Plant and Admin. Facilities	3,743,318	3,725,680	0.47%
Sewer Collection Facility	4,434,824	4,434,824	0.00%
Totals at Historical Cost	22,151,026	22,133,388	
Total Accumulated Depreciation	11,514,622	10,973,955	4.93%
<b>NET CAPITAL ASSETS</b>	<b>\$ 33,665,648</b>	<b>\$ 33,107,343</b>	

For the 2016-2017 fiscal year, the District did not budget for any Capital Asset purchases. Resources will be used to make repairs to the existing system in an effort to reduce water inflow and infiltration in the sewer collection system.

### Long-Term Debt

At year end, the District had \$4,308,000 in long-term debt, consisting of two Sewer Revenue Bonds, as shown in Table 5. During the fiscal year the District purchased a GPS mapping unit and new billing software. 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
	2016	2015	Change
Net Pension Liability	\$ 1,003,745	\$ 976,118	2.83%
Sewer Revenue Bonds-Series A	2,694,000	2,742,000	-1.75%
Sewer Revenue Bonds-Series B	1,614,000	1,643,000	-1.77%
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 5,311,745</b>	<b>\$ 5,361,118</b>	<b>-0.92%</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 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  
Dwayne Long, 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, 2016**

	<u><b>Enterprise Fund</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 961,809
Accounts Receivable	639,327
Taxes Receivable	52,101
Inventory	14,093
Prepaid Expenses	28,135
Accrued Interest	2,109
Total Current Assets	<u>1,697,574</u>
Restricted and Noncurrent Assets:	
Restricted Assets:	
Cash and Cash Equivalents	1,755,731
Investment in sewer treatment association	41,982
Capital assets (net of accumulated depreciation)	10,636,404
Total Restricted and Noncurrent Assets	<u>12,434,117</u>
<b>Total Assets</b>	<u><u>\$ 14,131,691</u></u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Recognition of Contributions to Pension Plan	<u><u>\$ 185,647</u></u>
 <b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable and other current liabilities	\$ 49,013
Due to other fund	652
Accrued Compensated absences	66,956
Due to Other Related Agency	187,138
Amounts payable from restricted assets:	
Bond interest payable	93,563
Current portion - bonds payable	80,000
Total Current Liabilities	<u>477,322</u>
Long-Term Liabilities	
Net Pension Liability	1,003,745
Bonds Payable	4,228,000
Total Long-Term Liabilities	<u>5,231,745</u>
<b>Total Liabilities</b>	<u><u>\$ 5,709,067</u></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Recognition of Pension Plan Earnings	<u><u>\$ 125,226</u></u>
 <b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 6,328,404
Restricted	1,755,731
Unrestricted	398,910
<b>Total Net Position</b>	<u><u>\$ 8,483,045</u></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, 2016**

	<b>Enterprise Fund</b>
Operating Revenues:	
Sewer service charges	\$ 1,142,415
Pumping charges	83,600
Connection fees	9,030
Special Assessment - Kelly Ridge	45,025
Total Operating Revenue	1,280,070
Operating Expenses:	
Administration and general	558,812
Sewage collection services	627,304
Depreciation	544,009
Total Operating Expense	1,730,125
Net Operating Income (Loss)	(450,055)
Nonoperating Revenues (Expenses)	
Taxes	267,313
Interest income and late fees	31,337
Capacity charges	47,770
Rural Development loan surcharges	353,868
Miscellaneous	25,476
Bond Interest Expense	(187,125)
Total Operating Expenses	538,639
Change in Net Position	88,584
Net Position Beginning	8,394,461
Net Position Ending	\$ 8,483,045

The accompanying notes are an integral part of this statement.

**LAKE OROVILLE AREA PUBLIC UTILTIY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows from Operating Activities:	
Cash received from customers	\$ 756,726
Other income	45,025
Cash paid to employees for service	(846,985)
Cash paid to suppliers	(328,009)
Net Cash Provided (Used) By Operating Activities	<u>(373,243)</u>
Cash Flows from Non-Capital Financing Activities:	
Miscellaneous nonoperational receipts	24,895
Property Taxes	267,313
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>292,208</u>
Cash Flows from Capital and Related Financing Activities:	
Additions to property, plant and equipment	(20,979)
Capacity charges received	47,770
Principal paid on capital debt	(77,000)
Interest Paid on Capital Debt	(188,797)
Rural development loan surcharges	353,868
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>114,862</u>
Cash Flows from Investing Activities:	
Interest on investments and customer late fees	30,705
Net Cash Provided (Used) by Investing Activities	<u>30,705</u>
Net Increase (Decrease) in Cash	64,532
Cash Balance - July 1, 2015	<u>2,653,008</u>
Cash Balance - June 30, 2016	<u><u>\$ 2,717,540</u></u>
Reconciliation:	
Operating Income (Loss)	\$ (450,055)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	544,009
Change in Assets and Liabilities:	
Adjustment for Deferred Outflows	(71,876)
(Increase)/decrease in receivables	(481,009)
(Increase)/decrease in inventories	3,553
(Increase)/decrease in prepaid assets	7,413
Increase/(decrease) in payables	47,095
Increase/(decrease) in net pension liabilities	27,627
Net Cash Provided by Operating Activities	<u><u>\$ (373,243)</u></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, 2016**

	<b>Villa Verona Assessment District Agency Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 32,255
Due from other fund	652
Assessments receivable - delinquent	3,036
Total Assets	\$ 35,943
<b>LIABILITIES</b>	
Current Liabilities:	
Easements payable	\$ 2,703
Due to bondholders	33,240
Total Current Liabilities	\$ 35,943
<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, 2016**

**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, 2016**

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, 2016 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 amounts due Villa Verona Special Assessment from the District at June 30, 2016 was \$652.

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, 2016**

*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. The District did not have any projects in progress at June 30, 2016.

J. Accrued Compensated Absences

All probationary and permanent employees of the District earn sick leave at a rate of one working day per month and can accrue an unlimited amount 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 will be bought back in any given calendar year unless employment is terminated, in which case all accrued sick leave over and above thirty (30) days will be bought back at said one-half rate. Upon retirement all accrued sick leave may be "bought back" by the District at a rate of one-half (1/2) 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.

**NOTE 2 CASH AND INVESTMENTS**

Cash and investments at June 30, 2016 consisted of the following:

Cash on Hand	\$ 500
Deposits with Financial Institutions	1,166,952
Deposit with LAIF	<u>1,550,077</u>
Total Cash and Cash equivalents	<u><u>\$ 2,717,529</u></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, 2016**

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 \$916,964 as of June 30, 2016 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, 2016**

**NOTE 4 CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance <u>06/30/15</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>06/30/16</u>
<b>Fixed Assets</b>				
Land	\$ 107,174	\$ -	\$ -	\$ 107,174
Subsurface lines	13,865,710			13,865,710
Sewer collection facilities	4,434,824			4,434,824
General plant and administration facilities	3,725,680	20,979	(3,341)	3,743,318
	<u>22,133,388</u>	<u>20,979</u>	<u>(3,341)</u>	<u>22,151,026</u>
<b>Accumulated Depreciation</b>				
Subsurface lines	(5,908,807)	(337,473)		(6,246,280)
Sewer collection facilities	(2,953,220)	(134,988)		(3,088,208)
General plant and administration facilities	(2,111,928)	(71,547)	3,341	(2,180,134)
Accumulated Depreciation	<u>(10,973,955)</u>	<u>(544,008)</u>	<u>3,341</u>	<u>\$ (11,514,622)</u>
Property and Equipment, Net	<u>\$ 11,159,433</u>	<u>\$ (523,029)</u>	<u>\$ -</u>	<u>\$ 10,636,404</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 June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Sewer Revenue Bonds - Series A	2,742,000	-	(48,000)	2,694,000	50,000
Sewer Revenue Bonds - Series B	1,643,000	-	(29,000)	1,614,000	30,000
Total Long-Term Liabilities-Bonds	<u>\$ 4,385,000</u>	<u>-</u>	<u>(77,000)</u>	<u>\$ 4,308,000</u>	<u>\$ 80,000</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. The Series A bonds (\$3,150,000) were issued in fiscal year 2004, and the Series B bonds (\$1,850,000) were issued in 2005. All the bonds were purchased by the USDA Rural Development through its Rural Utilities Service. The District has pledged all revenues of the enterprise fund to repay the Bonds, 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, 2016**

On the Series A bonds, interest accrues 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, 2016, was \$2,694,000.

On the Series B bonds, interest accrues at a rate of 4.50% per annum. “Series B” requires annual principal payments ranging from \$19,000 to \$100,000 each July 1 through 2043. Interest is paid semi-annually on January 1 and July 1. Total Series B bonds outstanding at June 30, 2016 was 1,614,000.

Debt service requirements to maturity are as follows:

Year Ended June 30,	Sewer Revenue Bonds	
	Series A	Series B
2017	\$ 164,495	\$ 102,630
2018	164,370	102,280
2019	165,160	102,885
2020	164,823	102,400
2021	165,400	102,870
2022-2026	826,625	511,745
2027-2031	831,448	511,840
2032-2036	836,933	512,470
2037-2041	844,278	512,665
2042-2046	510,502	310,010
Totals	\$ 4,674,034	\$ 2,871,795

**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, 2016 the Villa Verona Assessment District had \$208,000 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 1% of the employee’s salary only if the employee is matching 1% into the PERS 457 Plan. 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 ING Life Insurance and Annuity Company, Nationwide, and PERS. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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.

The following is a summary of plan activity for the year ended June 30, 2016:

	2016
Market Value- July 1	\$ 318,497
Employee Contributions	10,421
Employer Contributions	5,275
Plan earnings	3,760
Withdrawals/fees	(16,265)
Market Value- June 30	\$ 321,688

**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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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.

The Plan’s provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Prior to January 1, 2014	On or After January 1, 2014
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, 2016, the contributions recognized as part of pension expense for the Plan was as follows:

Contributions-Employer	\$ 131,851
Contributions-Employee	\$ 34,820

As of June 30, 2016, the District reported net pension liability of \$1,003,745 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, 2015, 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, 2014, rolled forward to June 30, 2015, 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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015, were as follows:

Proportion:	June 30, 2014	0.03950%
Proportion:	June 30, 2015	0.03659%
Change-Increase (Decrease)		-0.0029%

For the year ended June 30, 2016, the District recognized pension expense of \$92,003. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Changes in Assumptions	\$ -	\$ (83,411)
Differences between Expected and Actual Experiences	8,816	
Net Differences between Projected and Actual Earning		(41,814)
Adjustment Due to Differences in proportions	95,363	
Contributions Subsequent to the Measurement Date	91,731	
<b>Total</b>	<b>\$ 195,910</b>	<b>\$ (125,225)</b>

The \$91,731 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, 2017. 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	Deferred Outflows/ (Inflows) of Resources
June 30:	
2017	\$ 63,728
2018	(25,949)
2019	(20,544)
2020	53,450
2021	
Thereafter	
	<b>\$ 70,685</b>



**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions for the all Plans:

Valuations Date	June 30, 2014
Measurement Date	June 30, 2015
Actuaial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3%-14.2% (1)
Investment Rate of Return	7.65% (2)

(1) Depending on entry age and service

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**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 of this investment is not known at this time. The District estimates that the Fair Market Value is not materially different from cost.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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 sewerage 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. At June 30, 2016, the District held \$187,138 in unremitted SC-OR service charges.

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 audited financial information of SC-OR as of June 30, 2015 which is the latest report available:

	June 30, 2015
Total Assets	\$ 18,573,751
Deferred Outflows	148,181
Total Liabilities	(1,700,256)
Deferred Inflows	(266,894)
Net Position	\$ 16,754,782
Total Revenues	\$ 2,299,783
Total Expenses	2,361,127
Change in Net Position	\$ (61,344)

**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:

	2016
Restricted for capacity capital outlay	\$ 670,388
Restricted for revenue bond debt service	140,819
Restricted for rural development loan surcharge	1,085,343
Total restricted Net Position	\$ 1,896,550

**REQUIRED SUPPLEMENTARY INFORMATION**

**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, 2014</u>	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	0.015690%	0.020923%
Districts Proportionate Share of the Net Pension Liability/(Asset)	\$ 976,118	\$ 1,003,745
District's Covered-Employee Payroll	\$ 505,421	\$ 243,402
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	193.13%	412.38%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	81.15%	62.66%

**Notes to Schedule:**

Only the current and prior fiscal year is 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>Fiscal Year 2014</u>	<u>Fiscal Year 2015</u>
Actuarially Determined Contribution	\$ 128,957	\$ 137,556
Contributions in Relation to the Actuarially Determined Contribut	<u>(128,957)</u>	<u>(137,556)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 505,421	\$ 502,058
Contributions as a Percentage of Covered-Employee Payroll	25.51%	27.40%
Valuation date	6/30/2013	6/30/2014

**Notes to Schedule:**

Only the current and prior fiscal years are presented because a full 10-year data is not yet available.

**OTHER SUPPLEMENTARY INFORMATION**

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
<b>Operating Revenues:</b>			
Sewer service charges	\$ 1,142,548	\$ 1,142,415	\$ (133)
Pumping charges	83,660	83,600	(60)
Connection fees		9,030	9,030
Special Assessment - Kelly Ridge	45,000	45,025	25
	<u>1,271,208</u>	<u>1,280,070</u>	<u>8,862</u>
<b>Operating Expenses:</b>			
Salaries and wages	590,172	580,185	9,987
Employee benefits	396,634	284,578	112,056
Professional services	120,350	91,196	29,154
Utilities	72,564	68,812	3,752
Services and supplies	62,647	51,769	10,878
Training, memberships, and fees	33,695	23,306	10,389
Operations and maintenance	66,829	42,924	23,905
Fuel, oil, grease and auto	60,370	43,346	17,024
Depreciation (non-cash budgeted item)	542,184	544,009	(1,825)
	<u>1,945,445</u>	<u>1,730,125</u>	<u>215,320</u>
Net Operating Income	(674,237)	(450,055)	224,182
<b>Nonoperating Revenues (Expenses):</b>			
Taxes	245,600	267,313	21,713
Interest income and late fees	4,095	31,337	27,242
Capacity charges		47,770	47,770
Rural Development loan surcharges	353,741	353,868	127
Miscellaneous		25,476	25,476
Bond Interest Expense	(190,472)	(187,125)	3,347
Total Non Operating Revenues (Expenses)	<u>412,964</u>	<u>538,639</u>	<u>125,675</u>
<b>Other Budgeted Items:</b>			
Capitalized costs	(38,643)	(20,979)	17,664
Bond principal payments	(77,000)	(77,000)	-
Total Other Budgeted Items	<u>(115,643)</u>	<u>(97,979)</u>	<u>17,664</u>
Net Income (Loss) - Budget Basis	<u>\$ (376,916)</u>	<u>\$ (9,395)</u>	<u>\$ 367,521</u>
Net Position - July 1, 2015		8,394,461	
<b>Reconcile Budget to GAAP Basis:</b>			
Budgeted Capital Expenditures		20,979	
Bond Principal Payments		77,000	
Net Position - July 1, 2016		<u>\$ 8,483,045</u>	

**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, of the Lake Oroville Area Public Utility as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the district's basic financial statements and have issued our report thereon dated November 14, 2016.

**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 2016-1.



## **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  
November 14, 2016

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**LAKE OROVILLE ARE PUBLIC UTILITY DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

**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, 2016**

**YELLOW BOOK SECTION  
Material Weakness**

**Finding 2016-1 Financial Reporting**

**Criteria Upon Which Audit Finding is Based (Legal Citation)**

Statement on Auditing Standards No. 122.

**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 Statement on Auditing Standards No. 122 (SAS 122).

**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, 2016**

**Finding 2015-1**

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 2016-1.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
CORRECTIVE ACTION PLAN  
JUNE 30, 2016**

**Person Monitoring Corrective Action Plan**

Dwayne Long, District Manager

**Finding 2016-1 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.