



LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT

Butte County, California

FINANCIAL STATEMENTS TOGETHER WITH AUDITORS' REPORTS

For the years ended
June 30, 2015 and 2014

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
Butte County, California**

**BOARD OF DIRECTORS
JUNE 30, 2015**

	<u>Term Expires</u>
President:	
T. C. Dennis	December 2016
Vice-President:	
Larry E. Kuehner	December 2018
Members:	
Dee G. Fairbanks	December 2016
John J. Kiely	December 2018
Steven C. Onken	December 2018

Virgil D. Long, District Manager
Cynthia M. Quigley, Secretary/Treasurer

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT

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June 30, 2015

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BASIC FINANCIAL STATEMENTS



Davis W. Hammon, Jr., CPA
(1924-1989)

Stephen B. Norman, CPA • PFS
Stephen J. Herr, CPA
James L. Duckett, CPA

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Lake Oroville Area Public Utility District (the District) as of and for the years ended June 30, 2015 and 2014, 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.

Auditors' 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, and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 financial statement presentation.

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

Opinions

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, 2015 and 2014, and the respective change in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Emphasis of Matter

As disclosed in Notes 1 and 8 in the accompanying notes to financial statements, the District has made a change in its accounting principles to implement the requirements of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. The change was effective as of July 1, 2014. The amounts presented for the fiscal year ended June 30, 2014, were not restated, and our opinions were not modified with respect to this matter.

Other Matters

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 10 and other required supplemental information on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Oroville Area Public Utility District's financial statements. The accompanying supplemental information on page 35 is presented for the purpose of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Reports on Other Legal and Regulatory Requirements

Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets

In accordance with the agreement by the District and the League of California Cities in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines, we applied certain agreed upon procedures on the District's Appropriations Worksheets, which were performed solely to assist the District in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

Reports on Other Legal and Regulatory Requirements (continued)

Independent Auditors' Report on Compliance relating to the Sewerage Commission – Oroville Region

The management of the District is responsible for the District's compliance with various resolutions and policies of the Sewerage Commission – Oroville Region (SC-OR). We tested certain transactions and reviewed records to determine the District's compliance with SC-OR's resolutions and policies.

Davis Hammon & Co.

October 22, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Lake Oroville Area Public Utility District's financial performance provides an overview (Executive Summary) of the District's financial activities for the year ended June 30, 2015. It should be read in conjunction with the District's basic financial statements which begin on page 4. This annual financial report consists of two parts — Management's Discussion and Analysis, a format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34) and the Basic Financial Statements.

Basic Financial Statements

The District's basic **financial statements** include five components:

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

The **Statement of Net Position Proprietary Fund Type** includes all of 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 Type** 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 Type** 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Highlights

During the year ended June 30, 2015, the District's Change in Net Position decreased \$30,769 (.365%). The District's operating revenues increased \$64,844 (5.72%) while operating expenses decreased \$47,216 (2.76%).

Financial Analysis of the District

The District's total net position decreased \$1,050,902, \$1,020,133 due to GASB 68 implementation and 30,769 due to normal changes between fiscal years 2014 and 2015, from \$9.45 million to \$8.39 million. Equity invested in capital assets, net of related debt, decreased \$456,590 from \$7.23 million to \$6.77 million. Restricted net position increased \$104,221.

Lake Oroville Area Public Utility District's Net Position

(In Thousands of Dollars)

	<u>2015</u>	<u>2014</u>
Current and other assets	\$1,164	\$838
Restricted and noncurrent assets	1,798	1,694
Capital assets	<u>11,159</u>	<u>11,689</u>
Total Assets	<u>14,121</u>	<u>14,221</u>
CalPERS pension contributions	<u>137</u>	
Total Deferred Outflows of Resources	<u>137</u>	
Long-term debt	5,299	4,397
Other Liabilities	<u>422</u>	<u>378</u>
Total Liabilities	<u>5,721</u>	<u>4,775</u>
CalPERS actuarial amounts	<u>143</u>	
Total Deferred inflows of Resources	<u>143</u>	
Net Position:		
Invest in capital assets, net of debt	6,774	7,231
Restricted	1,756	1,652
Unrestricted	<u>(136)</u>	<u>563</u>
Total Net Position	<u>\$8,394</u>	<u>\$9,446</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Position - During the fiscal year 2015, 89% of the District's operating revenues came from sewer service charges. During the fiscal year 2014, 88% of the District's operating revenues came from sewer service charges.

The District's operating expenses decreased 2.76% to \$1,666,270 as a result of staff's conscientious effort to reduce operating costs in all facets of the District operations.

The District's non-operating revenues, net of non-operating expenses, decreased 8.4% to \$437,375.

Lake Oroville Area Public Utility District's Changes in Equity (In Thousands of Dollars)

	<u>2015</u>	<u>2014</u>
Revenues:		
Charges for services	\$1,352	\$1,329
Taxes	253	250
Interest	30	31
Loss on Abandonment of Equipment	<u>0</u>	<u>0</u>
Total Revenues	<u>1,635</u>	<u>1,610</u>
Expenses		
Administration and general	519	515
Sewage collection and services	579	600
Depreciation	<u>568</u>	<u>598</u>
Total Expenses	<u>1,666</u>	<u>1,713</u>
Change In Net Position	<u><u>\$(31)</u></u>	<u><u>\$(103)</u></u>

Capital Assets

During the year ended June 30, 2015, the District decreased its capital assets, net of accumulated depreciation, by \$529,590 to a total of 11.2 million after accumulated depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake Oroville Area Public Utility District's Capital Assets Net of Accumulated Depreciation (In Thousands of Dollars)

	<u>2015</u>	<u>2014</u>
Land	\$107	\$107
Subsurface lines	7,850	8,187
Sewer collection facilities	1,972	2,060
General plant and administration facilities	1,231	1,335
Construction-in-progress	<u>0</u>	<u>0</u>
Total Capital Assets	<u>\$11,160</u>	<u>\$11,689</u>

Capital Debt

No additional debt was issued during the year. More detailed information about the District's capital debt is presented in Note 5 of the financial statements.

Economic Factors

The District incurred a \$468,144 operating loss during fiscal year 2015 and a \$580,204 loss in year 2014. These operating losses are offset by the funds received from non-operational revenues.

District Financial Management

This financial report is designed to provide our customers, taxpayers, investors and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Lake Oroville Area Public Utility District 1960 Elgin Street Oroville, California 95966-6613.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND TYPE
JUNE 30, 2015 AND 2014**

Page 1 of 2

<u>ASSETS</u>	<u>Enterprise Fund</u>	
	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 896,804	\$ 566,685
Accounts receivable	161,008	166,912
Due from other related agency		7,475
Taxes receivable	51,520	38,641
Inventories	17,646	18,745
Prepaid expenses	35,548	38,721
Accrued interest	1,092	629
Total Current Assets	1,163,618	837,808
Restricted and Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	1,756,204	1,651,983
Investment in sewer treatment association	41,982	41,982
Capital assets (net of accumulated depreciation)	11,159,433	11,689,023
Total Restricted and Noncurrent Assets	12,957,619	13,382,988
Total Assets	14,121,237	14,220,796
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
CalPERS pension contributions	137,556	-
Total Deferred Outflows of Resources	137,556	-
 <u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and other current liabilities	22,702	22,950
Due to other fund	266	1,123
Accrued compensated absences	34,425	28,929
Due to other related agency	192,654	155,213
Amounts payable from restricted assets:		
Bond interest payable	95,235	96,820
Current portion - bonds payable	77,000	73,000
Total Current Liabilities	422,282	378,035
Long-Term Liabilities		
Accrued compensated absences	14,753	12,398
Net pension liability	976,118	
Bonds payable	4,308,000	4,385,000
Total Long-Term Liabilities	5,298,871	4,397,398
Total Liabilities	5,721,153	4,775,433

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND TYPE
JUNE 30, 2015 AND 2014**

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	<u>Enterprise Fund</u>	
	<u>2015</u>	<u>2014</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
CalPERS actuarial amounts	143,179	
Total Deferred Inflows of Resources	143,179	-
<u>NET POSITION</u>		
Net investment in capital assets	6,774,433	7,231,023
Restricted	1,756,204	1,651,983
Unrestricted	(136,176)	562,357
Total Net Position	\$ 8,394,461	\$ 9,445,363

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND TYPE
FOR THE YEARS ENDED JUNE 30, 2015 and 2014

	Enterprise Fund	
	2015	2014
Operating Revenues:		
Sewer service charges	\$ 1,068,615	\$ 996,761
Pumping charges	83,547	82,503
Connection fees	879	9,152
Other sales and services	346	325
Special Assessment - Kelly Ridge	44,739	44,541
Total Operating Revenues	<u>1,198,126</u>	<u>1,133,282</u>
Operating Expenses:		
Administration and general	519,095	515,176
Sewage collection and services	579,143	600,035
Depreciation	568,032	598,275
Total Operating Expenses	<u>1,666,270</u>	<u>1,713,486</u>
Net Operating Income (Loss)	<u>(468,144)</u>	<u>(580,204)</u>
Nonoperating Revenues (Expenses):		
Taxes	253,023	250,001
Interest income and late fees	30,316	31,360
Capacity charges	12,641	9,554
Rural development loan surcharges	353,481	353,378
Miscellaneous	15,830	19,404
SC-OR pipe patch grant		7,475
SC-OR excess flow charges	(37,446)	
Bond interest expense	(190,470)	(193,640)
Total Nonoperating Revenues (Expenses)	<u>437,375</u>	<u>477,532</u>
Change in net position	(30,769)	(102,672)
Net Position, beginning	9,445,363	9,148,586
Effect of change in accounting principle	(1,020,133)	
Prior period adjustment		399,449
Net Position, as restated	<u>8,425,230</u>	<u>9,548,035</u>
Total Net Position - June 30	<u>\$ 8,394,461</u>	<u>\$ 9,445,363</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

	<u>Enterprise Fund</u>	
	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,166,420	\$ 1,077,711
Other income	45,085	44,866
Cash paid to employees for services	(873,868)	(803,484)
Cash paid to suppliers	(251,749)	(340,027)
Net Cash Provided (Used) By Operating Activities	<u>85,888</u>	<u>(20,934)</u>
Cash Flows From Noncapital Financing Activities:		
Miscellaneous nonoperational receipts	15,830	34,322
Property taxes	240,144	257,390
Net Cash Provided (Used) By Noncapital Financing Activities	<u>255,974</u>	<u>291,712</u>
Cash Flows From Capital and Related Financing Activities:		
Additions to property, plant, and equipment	(38,442)	(103,542)
Capacity charges received	12,641	9,554
Principal paid on capital debt	(73,000)	(70,000)
Interest paid on capital debt	(192,055)	(195,160)
Rural development loan surcharges	353,481	353,378
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>62,625</u>	<u>(5,770)</u>
Cash Flows From Investing Activities:		
Interest on investments and customer late fees	29,853	31,316
Net Cash Provided (Used) By Investing Activities	<u>29,853</u>	<u>31,316</u>
Net Increase (Decrease) in Cash	434,340	296,324
Cash Balance - July 1	2,218,668	1,922,344
Cash Balance - June 30	<u>\$ 2,653,008</u>	<u>\$ 2,218,668</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (468,144)	\$ (580,204)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	568,032	598,275
Change in assets and liabilities:		
(Increase) decrease in receivables	13,379	(10,705)
(Increase) decrease in inventories	1,099	9,130
(Increase) decrease in prepaid assets	3,173	(570)
Increase (decrease) in payables	6,741	(36,860)
Increase (decrease) in net pension liability	(38,392)	
Net Cash Provided (Used) By Operating Activities	<u>\$ 85,888</u>	<u>\$ (20,934)</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2015 and 2014**

		Villa Verona Assessment District Agency Fund	
		2015	2014
<u>ASSETS</u>			
Cash and cash equivalents		\$ 32,259	\$ 30,244
Due from other fund		266	1,123
Assessments receivable - delinquent		3,205	1,649
Total Assets		35,730	33,016
<u>LIABILITIES</u>			
Current Liabilities:			
Easements payable		2,703	2,703
Due to bondholders		33,027	30,313
Total Liabilities		35,730	33,016
<u>NET POSITION</u>			
Unrestricted		-	-
Total Net Position		\$ -	\$ -

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014, 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 were \$266 and \$1,123 for the years ended June 30, 2015 and 2014, respectively.

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, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the end of fiscal years 2015 or 2014.

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.

K. New Accounting Pronouncement

Effective July 1, 2014, the District has implemented the provisions contained in the Governmental Accounting Standards Board (GASB) Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions*. GASB No. 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits. GASB No. 68 also requires additional disclosures and required supplemental information. The implementation of this GASB statement required an adjustment to beginning net position of \$1,020,133, decreasing beginning net position from \$9,548,035 to \$8,527,902. The District has not restated the amounts for the year ended June 30, 2014, and earlier years as necessary adjustments as a result of GASB No. 68 could not be reasonably determined.

NOTE 2 CASH AND INVESTMENTS

Cash and investments as of June 30, 2015 and 2014, are classified in the accompanying financial statements as follows:

	<u>2015</u>	<u>2014</u>
Statement of net position		
Current Assets:		
Cash and cash equivalents	\$ 896,804	\$ 566,685
Restricted Assets:		
Cash and cash equivalents	<u>1,756,204</u>	<u>1,651,983</u>
Total cash and cash equivalents	<u>\$ 2,653,008</u>	<u>\$ 2,218,668</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 2 CASH AND INVESTMENTS (Continued)

Cash and investments as of June 30, 2015 and 2014, consist of the following:

	2015	2014
Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	1,107,986	1,077,098
LAIF	1,544,522	1,141,070
Total cash and cash equivalents	\$ 2,653,008	\$ 2,218,668

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.

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 \$694,653 and \$653,107, respectively, for 2015 and 2014, and the remaining amounts were collateralized as described above.

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 2 CASH AND INVESTMENTS (Continued)

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 1st. 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.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the District's property, plant, and equipment during the fiscal years ended June 30, 2015 and 2014:

	Balance June 30, 2014	Additions	Deletions	Adjustments	Balance June 30, 2015
Nondepreciable Capital Assets:					
Land	\$ 107,174				\$ 107,174
Construction-in-progress	-				-
Total Nondepreciable Capital Assets	<u>107,174</u>	-	-		<u>107,174</u>
Depreciable Capital Assets:					
Subsurface lines	13,865,710				13,865,710
Sewer collection facilities	4,434,824				4,434,824
General plant and administration facilities	3,714,023	\$ 38,442	\$ 26,785		3,725,680
Total Depreciable Assets	<u>22,014,557</u>	<u>38,442</u>	<u>26,785</u>	-	<u>22,026,214</u>
Less: Accumulated Depreciation:					
Subsurface lines	(5,678,545)	(337,472)			(6,016,017)
Sewer collection facilities	(2,374,552)	(88,697)			(2,463,249)
General plant and administration facilities	(2,379,611)	(141,863)	26,785		(2,494,689)
Total Accumulated Depreciation	<u>(10,432,708)</u>	<u>(568,032)</u>	<u>26,785</u>	-	<u>(10,973,955)</u>
Depreciable Capital Assets, Net	<u>11,581,849</u>	<u>(529,590)</u>	<u>53,570</u>	-	<u>11,052,259</u>
Total Capital Assets, Net	<u>\$ 11,689,023</u>	<u>\$ (529,590)</u>	<u>\$ 53,570</u>	<u>\$ -</u>	<u>\$ 11,159,433</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 4 CAPITAL ASSETS (Continued)

	Balance June 30, 2013	Additions	Deletions	Adjustments	Balance June 30, 2014
Nondepreciable Capital Assets:					
Land	\$ 107,174				\$ 107,174
Construction-in-progress	543,886	\$ 88,442	\$ 632,328		-
Total Nondepreciable Capital Assets	651,060	88,442	632,328		107,174
Depreciable Capital Assets:					
Subsurface lines	12,766,560	632,328		\$ 466,822	13,865,710
Sewer collection facilities	4,434,824				4,434,824
General plant and administration facilities	3,700,636	15,100	1,713		3,714,023
Total Depreciable Assets	20,902,020	647,428	1,713	466,822	22,014,557
Less: Accumulated Depreciation:					
Subsurface lines	(5,179,136)	(327,125)	(104,911)	(67,373)	(5,678,545)
Sewer collection facilities	(2,393,065)	(86,398)	104,911		(2,374,552)
General plant and administration facilities	(2,196,572)	(184,752)	1,713		(2,379,611)
Total Accumulated Depreciation	(9,768,773)	(598,275)	1,713	(67,373)	(10,432,708)
Depreciable Capital Assets, Net	11,133,247	49,153	3,426	399,449	11,581,849
Total Capital Assets, Net	\$ 11,784,307	\$ 137,595	\$ 635,754	\$ 399,449	\$ 11,689,023

NOTE 5 LONG-TERM DEBT

Changes in Long-Term Liabilities – Long-term liability activity, excluding the liability for compensated absences and net pension liability, for the years ended June 30, 2015 and 2014, was as follows:

	Balance 07/01/14	Additions	Deletions	Balance 06/30/15	Due Within One Year
Sewer Revenue Bonds - Series A	\$ 2,788,000	\$ -	\$ 46,000	\$ 2,742,000	\$ 48,000
Sewer Revenue Bonds - Series B	1,670,000		27,000	1,643,000	29,000
Total Long-Term Liabilities	\$ 4,458,000	\$ -	\$ 73,000	\$ 4,385,000	\$ 77,000
	Balance 07/01/13	Additions	Deletions	Balance 06/30/14	Due Within One Year
Sewer Revenue Bonds - Series A	\$ 2,832,000	\$ -	\$ 44,000	\$ 2,788,000	\$ 46,000
Sewer Revenue Bonds - Series B	1,696,000		26,000	1,670,000	27,000
Total Long-Term Liabilities	\$ 4,595,000	\$ -	\$ 70,000	\$ 4,458,000	\$ 73,000

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, 2015 AND 2014**

NOTE 5 LONG-TERM DEBT (Continued)

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, 2015 and 2014, was \$2,742,000 and \$2,788,000, respectively.

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, 2015 and 2014, was \$1,643,000 and \$1,670,000, respectively.

Debt service requirements to maturity are presented on the following schedules:

Year Ended June 30,	Sewer Revenue Bonds Series A		Total
	Principal	Interest	
2016	48,000	116,535	164,535
2017	50,000	114,495	164,495
2018	52,000	112,370	164,370
2019	55,000	110,160	165,160
2020	57,000	107,823	164,823
2021-2025	326,000	500,480	826,480
2026-2030	406,000	424,703	830,703
2031-2035	505,000	330,395	835,395
2036-2040	629,000	213,010	842,010
2041-2043	614,000	66,597	680,597
	<u>\$ 2,742,000</u>	<u>\$ 2,096,568</u>	<u>\$ 4,838,568</u>

Year Ended June 30,	Sewer Revenue Bonds Series B		Total
	Principal	Interest	
2016	29,000	73,935	102,935
2017	30,000	72,630	102,630
2018	31,000	71,280	102,280
2019	33,000	69,885	102,885
2020	34,000	68,400	102,400
2021-2025	195,000	317,520	512,520
2026-2030	242,000	269,730	511,730
2031-2035	302,000	210,060	512,060
2036-2040	377,000	135,630	512,630
2041-2044	370,000	42,660	412,660
	<u>\$ 1,643,000</u>	<u>\$ 1,331,730</u>	<u>\$ 2,974,730</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, 2015 and 2014, the Villa Verona Assessment District had \$217,000 and \$225,000, in outstanding bonds payable, respectively.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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. For the years ended June 30, 2015 and 2014, the District made contributions of \$5,010 and \$4,882, respectively, to the PERS 457 Plan. 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.

The following is a summary of plan activity for the years ended June 30, 2015 and 2014:

	2015	2014
Market value - July 1	\$ 295,808	\$ 252,019
Employee contributions	15,098	16,592
Employer contributions	5,010	4,882
Plan earnings	8,380	27,978
Withdrawals/fees	(5,798)	(5,663)
Market value - June 30	\$ 318,498	\$ 295,808

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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

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.

The Plan's provisions and benefits in effect at June 30, 2015, 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 contribution rates	27.797%	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, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

Contributions - employer	\$	137,556
Contributions - employee (paid by employer)		20,065
Contributions - employee		18,580

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

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

As of June 30, 2015, the District reported net pension liability of \$976,118 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, 2014, 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, 2013, rolled forward to June 30, 2014, 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, 2013 and 2014, were as follows:

Proportion - June 30, 2013	0.0400%
Proportion - June 30, 2014	0.03950%
Change - Increase (Decrease)	-0.001%

For the year ended June 30, 2015, the District recognized pension expense of \$99,164. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Pension contributions subsequent to measurement date	\$ 137,556	
Differences between actual and expected experience		\$ (114,444)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(28,735)
	\$ 137,556	\$ (143,179)

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

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

\$137,556 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2016	\$ 38,874
2017	38,874
2018	36,820
2019	28,611
2020	-
Thereafter	-
	\$ 143,179

Actuarial Assumptions – The total pension liabilities in the June 30, 2013, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.50%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase ⁽¹⁾	3.3% - 14.2%
Investment rate of return ⁽²⁾	7.50%
Mortality	RP-2000 HAMT

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

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013, 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 found on the CalPERS website.

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

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

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for the Plan. 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 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 ^(a)	Real Return Years 11+ ^(b)
Global equity	47.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	12.0%	6.83%	6.95%
Real estate	11.0%	4.50%	5.13%
Infrastructure and forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	1.05%
	<u>100.0%</u>		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Discount rate	6.50%	7.50%	8.50%
Net pension liability	\$ 1,326,646	\$ 976,118	\$ 685,214

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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. 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, 2015 and 2014, the District held \$155,208 and \$155,213, respectively, in unremitted SC-OR service charges and \$0 and \$0, respectively, in unremitted facility charges, included in the 2015 amounts is a one-time excess peak flow charge of \$37,446 that have been reported as a liability on the accompanying balance sheet as "due to other related agency." Additionally, SC-OR owed the District \$0 and \$7,475 at June 30, 2015 and 2014, respectively, for a pipe patch grant to minimize inflow and infiltration into the system that has been reported as an asset on the accompanying balance sheet as "due from other related agency."

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 a condensed audited balance sheet of SC-OR as of June 30, 2014, which is the latest report available:

	June 30, 2014
Cash	\$ 7,416,112
Other assets	11,184,070
Total Assets	\$ 18,600,182
Liabilities	\$ 397,226
Net position	18,202,956
Total Liabilities and Net Position	\$ 18,600,182
Total Revenues	\$ 2,505,018
Total Expenses	(2,336,711)
Net Change In Net Position	\$ 168,307

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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>2015</u>	<u>2014</u>
Restricted for capacity capital outlay	\$ 619,785	\$ 605,576
Restricted for revenue bond debt service	140,819	140,819
Restricted for rural development loan surcharge	<u>995,600</u>	<u>905,588</u>
Total Restricted Net Position	<u>\$ 1,756,204</u>	<u>\$ 1,651,983</u>

NOTE 12 PRIOR PERIOD ADJUSTMENT – JUNE 30, 2014

The District accepted ownership and maintenance through resolution of three developer sewer line extension projects, which were donated to the District by the developers. This resulted in a non-cash transaction at the fair market value at the date of the donated assets. The effect on June 30, 2013, net income would have been a net income decrease of \$9,336 due to depreciation expense on these donated assets. The detail of these donated assets is as follows:

	<u>Cottage Cove</u>	<u>The Ridge</u>	<u>The Ridge Phase I Unit II</u>	<u>Totals</u>
Asset donation dates	9/14/2004	7/12/2005	3/13/2007	
Asset value at date of donation	\$ 95,400	\$ 104,172	\$ 267,250	\$ 466,822
Allowable depreciation through June 30, 2013	<u>(16,854)</u>	<u>(16,667)</u>	<u>(33,852)</u>	<u>(67,373)</u>
Net prior period adjustment	<u>\$ 78,546</u>	<u>\$ 87,505</u>	<u>\$ 233,398</u>	<u>\$ 399,449</u>

REQUIRED SUPPLEMENTAL INFORMATION

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2015**

SCHEDULE I

		2014
Proportion of the net pension liability		0.01569%
Proportionate share of the net pension liability	\$	976,118
Covered-employee payroll	\$	505,421
Proportionate share of the net pension liability as a percentage of covered-employee payroll		193.13%
Plan's fiduciary net position	\$	10,639,461,174
Plan's fiduciary net position as a percentage of the total pension liability		81.15%

Notes to Schedule:

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

Changes in assumptions. None.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
AS OF JUNE 30, 2015**

SCHEDULE II

	2014
Contractually required contributions (actuarially determined)	\$ 128,957
Contributions in relation to the actuarially determined contributions	(128,957)
	\$ -
Covered-employee payroll	\$ 505,421
Contributions as a percentage of covered-employee payroll	25.51%
Valuation date	6/30/2013

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including 3.0% inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	57 years
Mortality	RP-2000 Healthy Annuitant Mortality Table

SUPPLEMENTAL INFORMATION

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

SCHEDULE III

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:			
Sewer service and pumping charges	\$ 1,154,016	\$ 1,152,162	\$ (1,854)
Connection fees		879	879
Special assessment - Kelly Ridge	45,000	44,739	(261)
Other sales and services		346	346
Total Operating Revenues	<u>1,199,016</u>	<u>1,198,126</u>	<u>(890)</u>
Operating Expenses:			
Salaries and wages	549,547	509,695	39,852
Employee benefits	385,179	300,780	84,399
Directors' fees and benefits	32,600	25,002	7,598
Professional services	119,900	89,555	30,345
Utilities	71,544	61,725	9,819
Services and supplies	45,282	37,946	7,336
Training, memberships, and fees	30,695	26,504	4,191
Repairs and maintenance	53,100	17,104	35,996
Fuel, oil, grease, and auto	56,250	29,927	26,323
Depreciation (non-cash budgeted item)	547,176	568,032	(20,856)
Total Operating Expenses	<u>1,891,273</u>	<u>1,666,270</u>	<u>225,003</u>
Net Operating Income	<u>(692,257)</u>	<u>(468,144)</u>	<u>224,113</u>
Nonoperating Revenues (Expenses):			
Taxes	240,700	253,023	12,323
Interest income and customer late fees	2,898	30,316	27,418
Capacity charges		12,641	12,641
Rural development loan surcharges	353,741	353,481	(260)
Miscellaneous revenues		15,830	15,830
SC-OR excess flow charges		(37,446)	(37,446)
Bond interest expense	(192,055)	(190,470)	1,585
Total Nonoperating Revenues (Expenses)	<u>405,284</u>	<u>437,375</u>	<u>32,091</u>
Other Budgeted Items:			
Capitalized costs	(49,000)	(38,442)	10,558
Bond principal payments	(73,000)	(73,000)	-
Total Other Budgeted Items	<u>(122,000)</u>	<u>(111,442)</u>	<u>10,558</u>
Net Income (Loss) - Budget Basis	<u>\$ (408,973)</u>	<u>(142,211)</u>	<u>\$ 266,762</u>
Net Position - July 1, 2014		9,445,363	
Reconcile Budget to GAAP Basis:			
Effect of change in accounting principle		(1,020,133)	
Budgeted capital expenditures		38,442	
Bond principal payments		73,000	
Net Position - June 30, 2015		<u>\$ 8,394,461</u>	

COMPLIANCE SECTION



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(1924-1989)

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Stephen J. Herr, CPA
James L. Duckett, CPA

**INDEPENDENT AUDITORS' 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 Utility District
Oroville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of Lake Oroville Area Public Utility District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Oroville Area Public Utility District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Oroville Area Public Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Oroville Area Public Utility 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness as described in item 2015-1 below.

2015-1 Reliance Upon Auditor For Preparation of Financial Statements and Footnote Disclosures

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

Criteria: A system of internal control over financial reporting includes controls over financial statement presentation, including note disclosures, in conformity with U.S. generally accepted accounting principles. In considering a system of internal control over financial reporting, Statement of Auditing Standards state that the auditor may not be considered as part of the system. Specifically, someone from Lake Oroville Area Public Utility District must be

knowledgeable enough in generally accepted accounting principles to know if a misstatement has occurred in the financial statements, including the notes to the financial statements.

Cause: Lake Oroville Area Public Utility District does not have an employee experienced in generally accepted accounting principles to the degree required to make a determination a misstatement has occurred, nor has an outside accountant been engaged by Lake Oroville Area Public Utility District to provide the additional expertise.

Effect: Undetermined.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Oroville Area Public Utility 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Davis Hammon & Co.

October 22, 2015

**INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES APPLIED
TO APPROPRIATIONS LIMIT WORKSHEETS**

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

We have applied the procedures enumerated below to the Appropriations Limit calculations of the Lake Oroville Area Public Utility District for the year ended June 30, 2015. These procedures, which were agreed to by the Lake Oroville Area Public Utility District and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) were performed solely to assist the District in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

- 1) We obtained the District's completed alternate computational Appropriations Limit worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

- 2) Using the District's alternate computational worksheet, we added last year's limit to the total current year limit adjustments, as computed, for this year and compared the results to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

- 3) We compared the prior year appropriations limit presented in the alternate computational worksheets to the prior year appropriations limit adopted by the Board of Directors for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the Appropriations Limit alternate computational worksheets. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication *Article XIII B Appropriations Limitation Uniform Guidelines*.



This report is intended solely for the use of the Lake Oroville Area Public Utility District and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Davis Hammon & Co.

October 22, 2015



Davis W. Hammon, Jr., CPA
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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE RELATING TO THE
SEWERAGE COMMISSION - OROVILLE REGION**

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

We have audited the basic financial statements of the Lake Oroville Area Public Utility District for the year ended June 30, 2015, and have issued our report thereon dated October 22, 2015. Our audit of such basic financial statements was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

The management of the Lake Oroville Area Public Utility District is responsible for the District's compliance with various resolutions and policies of the Sewerage Commission - Oroville Region (SC-OR) pertaining to the sewer regional facility charges and monthly sewer service charges. In connection with our audit referred to above, we selected and tested transactions and records applicable to new sewer connections and monthly sewer service charges to determine the District's compliance with SC-OR's resolutions and policies.

The results of our tests indicate that, with respect to the items tested, the Lake Oroville Area Public Utility District complied, in all material respects, with the provisions referred to in the preceding paragraph. However, we did note the following compliance exception: The District received a regional facility charge on November 1, 2013, and did not remit to SC-OR until January 27, 2014, which was paid 43 days late. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Board of Directors, management, and the Sewerage Commission - Oroville Region and is not intended to be and should not be used by anyone other than these specified parties.

Davis Hammon & Co.

October 22, 2015