



LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT

Butte County, California

FINANCIAL STATEMENTS TOGETHER WITH AUDITORS' REPORTS

For the years ended
June 30, 2014 and 2013

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

**BOARD OF DIRECTORS
JUNE 30, 2014**

	<u>Term Expires</u>
President:	
Steven C. Onken	December 2014
Vice-President:	
T. C. Dennis	December 2016
Members:	
Larry E. Kuehner	December 2014
Dee G. Fairbanks	December 2016
John J. Kiely	December 2014

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

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT

Table Of Contents June 30, 2014

<u>Basic Financial Statements</u>	<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report		4 – 6
Management's Discussion and Analysis		7 – 10
Statements of Net Position	One	11
Statements of Revenues, Expenses, and Changes in Net Position	Two	12
Statements of Cash Flows	Three	13
Statements of Fiduciary Net Position	Four	14
Notes to Financial Statements		15 – 25
<u>Supplemental Information</u>	<u>Schedule</u>	
Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual	I	27
<u>Compliance Section</u>		
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		29 – 30
Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets		31 – 32
Independent Auditors' Report on Compliance relating to the Sewerage Commission – Oroville Region		33

BASIC FINANCIAL STATEMENTS

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, 2014 and 2013, 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, 2014 and 2013, 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.



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 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 27 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 September 4, 2014, 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.

September 4, 2014

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, 2014. 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, 2014, the District’s Total Net Position increased \$296,777 (3.24%). The District’s operating revenues increased \$79,323 (7.53%) while operating expenses decreased \$21,866 (1.26%).

Financial Analysis of the District

The District’s total net position increased \$296,777 between fiscal years 2013 and 2014, from \$9.15 million to \$9.45 million. Equity invested in capital assets, net of related debt, decreased \$25,284 from \$7.26 million to \$7.23 million. Restricted net position increased \$269,089.

Lake Oroville Area Public Utility District’s Net Assets (In Thousands of Dollars)

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 838	\$ 655
Restricted and noncurrent assets	1,694	1,593
Capital assets	11,689	11,784
Total Assets	<u>14,221</u>	<u>14,032</u>
Long-term debt	4,397	4,473
Other Liabilities	378	411
Total Liabilities	<u>4,775</u>	<u>4,884</u>
Net Assets:		
Invest in capital assets, net of debt	7,231	7,256
Restricted	1,652	1,383
Unrestricted	<u>562</u>	<u>509</u>
Total Net Position	<u>\$9,445</u>	<u>\$9,149</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Position - During the fiscal year 2014, 88% of the District's operating revenues came from sewer service charges. During the fiscal year 2013, 88% of the District's operating revenues came from sewer service charges.

The District's operating expenses decreased 1.26% to \$1,713,486 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, increased 13.2% to \$477,532.

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

	<u>2014</u>	<u>2013</u>
Revenues:		
Charges for services	\$ 1,329	\$1,192
Taxes	250	255
Interest	31	31
Loss on Abandonment of Equipment	<u>0</u>	<u>(2)</u>
Total Revenues	<u>1,610</u>	<u>1,476</u>
Expenses		
Administration and general	515	542
Sewage collection and services	600	583
Depreciation	<u>598</u>	<u>610</u>
Total Expenses	<u>1,713</u>	<u>1,735</u>
Change In Net Position	<u>\$(103)</u>	<u>\$(260)</u>

Capital Assets

During the year ended June 30, 2014, the District decreased its capital assets, net of accumulated depreciation, by \$95,284 to a total of 11.7 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>2014</u>	<u>2013</u>
Land	\$ 107	\$ 107
Subsurface lines	8,187	7,587
Sewer collection facilities	2,060	2,042
General plant and administration facilities	1,335	1,504
Construction-in-progress	0	544
Total Capital Assets	<u>\$11,689</u>	<u>\$11,784</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 \$580,204 operating loss during fiscal year 2014, and a \$681,393 loss in year 2013. 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, 2014 AND 2013

	<u>Enterprise Fund</u>	
	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 566,685	\$ 371,110
Accounts receivable	166,912	156,207
Due from other related agency	7,475	14,918
Taxes receivable	38,641	46,030
Inventories	18,745	27,875
Prepaid expenses	38,721	38,151
Accrued interest	629	585
Total Current Assets	<u>837,808</u>	<u>654,876</u>
Restricted and Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	1,651,983	1,551,234
Investment in sewer treatment association	41,982	41,982
Capital assets (net of accumulated depreciation)	<u>11,689,023</u>	<u>11,784,307</u>
Total Restricted and Noncurrent Assets	<u>13,382,988</u>	<u>13,377,523</u>
Total Assets	<u>14,220,796</u>	<u>14,032,399</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and other current liabilities	22,950	43,967
Due to other fund	1,123	8,490
Accrued compensated absences	28,929	33,792
Due to other related agency	155,213	155,170
Employee flexible spending		1,572
Amounts payable from restricted assets:		
Bond interest payable	96,820	98,340
Current portion - bonds payable	<u>73,000</u>	<u>70,000</u>
Total Current Liabilities	<u>378,035</u>	<u>411,331</u>
Long-Term Liabilities		
Accrued compensated absences	12,398	14,482
Bonds payable	<u>4,385,000</u>	<u>4,458,000</u>
Total Long-Term Liabilities	<u>4,397,398</u>	<u>4,472,482</u>
Total Liabilities	<u>4,775,433</u>	<u>4,883,813</u>
<u>NET POSITION</u>		
Net investment in capital assets	7,231,023	7,256,307
Restricted	1,651,983	1,382,894
Unrestricted	<u>562,357</u>	<u>509,385</u>
Total Net Position	<u>\$ 9,445,363</u>	<u>\$ 9,148,586</u>

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND TYPE
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Enterprise Fund	
	2014	2013
Operating Revenues:		
Sewer service charges	\$ 996,761	\$ 923,010
Pumping charges	82,503	83,463
Connection fees	9,152	2,379
Other sales and services	325	111
Special Assessment - Kelly Ridge	44,541	44,996
Total Operating Revenues	<u>1,133,282</u>	<u>1,053,959</u>
Operating Expenses:		
Administration and general	515,176	542,401
Sewage collection and services	600,035	582,916
Depreciation	598,275	610,035
Total Operating Expenses	<u>1,713,486</u>	<u>1,735,352</u>
Net Operating Income (Loss)	<u>(580,204)</u>	<u>(681,393)</u>
Nonoperating Revenues (Expenses):		
Taxes	250,001	254,975
Interest income and late fees	31,360	30,965
Annexation charges		793
Capacity charges	9,554	10,149
Rural development loan surcharges	353,378	353,310
Miscellaneous	19,404	23,071
SC-OR pipe patch grant	7,475	14,918
Loss on scrapped fixed assets		(2,177)
Prior year capital project costs abandoned		(67,459)
Bond interest expense	(193,640)	(196,680)
Total Nonoperating Revenues (Expenses)	<u>477,532</u>	<u>421,865</u>
Change in net position	(102,672)	(259,528)
Net Position, beginning	9,148,586	9,408,114
Prior period adjustment	399,449	
Net Position, as restated	<u>9,548,035</u>	<u>9,408,114</u>
Total Net Position - June 30	<u>\$ 9,445,363</u>	<u>\$ 9,148,586</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	Enterprise Fund	
	2014	2013
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,077,711	\$ 1,017,758
Other income	44,866	45,107
Cash paid to employees for services	(803,484)	(787,908)
Cash paid to suppliers	(340,027)	(287,222)
Net Cash Provided (Used) By Operating Activities	<u>(20,934)</u>	<u>(12,265)</u>
Cash Flows From Noncapital Financing Activities:		
Miscellaneous nonoperational receipts	34,322	38,055
Annexation Fees		793
Property taxes	257,390	244,045
Net Cash Provided (Used) By Noncapital Financing Activities	<u>291,712</u>	<u>282,893</u>
Cash Flows From Capital and Related Financing Activities:		
Additions to property, plant, and equipment	(103,542)	(143,447)
Capacity charges received	9,554	10,149
Principal paid on capital debt	(70,000)	(67,000)
Interest paid on capital debt	(195,160)	(198,135)
Rural development loan surcharges	353,378	353,310
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(5,770)</u>	<u>(45,123)</u>
Cash Flows From Investing Activities:		
Interest on investments and customer late fees	31,316	31,757
Net Cash Provided (Used) By Investing Activities	<u>31,316</u>	<u>31,757</u>
Net Increase (Decrease) in Cash	296,324	257,262
Cash Balance - July 1	1,922,344	1,665,082
Cash Balance - June 30	<u>\$ 2,218,668</u>	<u>\$ 1,922,344</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (580,204)	\$ (681,393)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	598,275	610,035
Change in assets and liabilities:		
(Increase) decrease in receivables	(10,705)	8,906
(Increase) decrease in inventories	9,130	19,637
(Increase) decrease in prepaid assets	(570)	3,315
Increase (decrease) in payables	(36,860)	27,235
Net Cash Provided (Used) By Operating Activities	<u>\$ (20,934)</u>	<u>\$ (12,265)</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2014 AND 2013**

	Villa Verona Assessment District Agency Fund	
<u>ASSETS</u>	2014	2013
Cash and cash equivalents	\$ 30,244	\$ 22,547
Due from other fund	1,123	8,490
Assessments receivable - delinquent	1,649	1,105
Total Assets	33,016	32,142
<u>LIABILITIES</u>		
Current Liabilities:		
Easements payable	2,703	2,703
Due to bondholders	30,313	29,439
Total Liabilities	33,016	32,142
<u>NET POSITION</u>		
Unrestricted	-	-
Total Net Position	\$ -	\$ -

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 AND 2013

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, 2014 and 2013, 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 \$1,123 and \$8,490 for the years ended June 30, 2014 and 2013, 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, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets (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 incur any construction period interest expense for either year.

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

The Governmental Accounting Standards Board (GASB) has approved Statement No. 68, Accounting and Financial Reporting for Pensions, which requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits. Statement No. 68 also requires additional disclosures and required supplemental information. The implementation of this GASB statement is effective for the fiscal year ended June 30, 2015, and could have a significant impact on the District’s financial statements.

NOTE 2 CASH AND INVESTMENTS

Cash and investments as of June 30, 2014 and 2013, are classified in the accompanying financial statements as follows:

	<u>2014</u>	<u>2013</u>
Statement of net position		
Current Assets:		
Cash and cash equivalents	\$ 566,685	\$ 371,110
Restricted Assets:		
Cash and cash equivalents	<u>1,651,983</u>	<u>1,551,234</u>
Total cash and cash equivalents	<u>\$ 2,218,668</u>	<u>\$ 1,922,344</u>

Cash and investments as of June 30, 2014 and 2013, consist of the following:

Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	1,077,098	783,479
LAIF	<u>1,141,070</u>	<u>1,138,365</u>
Total cash and cash equivalents	<u>\$ 2,218,668</u>	<u>\$ 1,922,344</u>

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 CASH AND INVESTMENTS (continued)

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 \$653,107 and \$282,287, respectively, for 2014 and 2013, 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.

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Construction-in-progress – The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balance at June 30, 2014 and 2013, are as follows:

	2014	2013
Villa Verona Mainline		\$ 543,886
Total Construction-In-Progress	\$ -	\$ 543,886

The following is a summary of changes in the District's property, plant, and equipment during the fiscal years ended June 30, 2014 and 2013:

	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

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 CAPITAL ASSETS (continued)

	Balance June 30, 2012	Additions	Deletions	Adjustments	Balance June 30, 2013
Nondepreciable Capital Assets:					
Land	\$ 107,174				\$ 107,174
Construction-in-progress	467,898	\$ 143,447	\$ 67,459		543,886
Total Nondepreciable Capital Assets	575,072	143,447	67,459		651,060
Depreciable Capital Assets:					
Subsurface lines	12,766,560				12,766,560
Sewer collection facilities	4,477,270		42,446		4,434,824
General plant and administration facilities	3,936,680		236,044		3,700,636
Total Depreciable Assets	21,180,510	-	278,490		20,902,020
Less: Accumulated Depreciation:					
Subsurface lines	(4,863,647)	(315,489)			(5,179,136)
Sewer collection facilities	(2,346,814)	(88,697)	42,446		(2,393,065)
General plant and administration facilities	(2,224,590)	(205,849)	233,867		(2,196,572)
Total Accumulated Depreciation	(9,435,051)	(610,035)	276,313		(9,768,773)
Depreciable Capital Assets, Net	11,745,459	(610,035)	554,803		11,133,247
Total Capital Assets, Net	\$ 12,320,531	\$ (466,588)	\$ 622,262	\$ -	\$ 11,784,307

NOTE 5 LONG-TERM DEBT

Changes in Long-Term Liabilities – Long-term liability activity, excluding the liability for compensated absences, for the years ended June 30, 2014 and 2013, was as follows:

	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
	Balance 07/01/12	Additions	Deletions	Balance 06/30/13	Due Within One Year
Sewer Revenue Bonds - Series A	\$ 2,874,000	\$ -	\$ 42,000	\$ 2,832,000	\$ 44,000
Sewer Revenue Bonds - Series B	1,721,000		25,000	1,696,000	26,000
Total Long-Term Liabilities	\$ 4,595,000	\$ -	\$ 67,000	\$ 4,528,000	\$ 70,000

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.

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, 2014 and 2013, was \$2,788,000 and \$2,832,000, respectively.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 LONG-TERM DEBT (continued)

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, 2014 and 2013, was \$1,670,000 and \$1,696,000, respectively.

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

Year Ended June 30,	Sewer Revenue Bonds Series A		Total
	Principal	Interest	
2015	\$ 46,000	\$ 118,490	\$ 164,490
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
2020-2024	312,000	513,740	825,740
2025-2029	389,000	441,235	830,235
2030-2034	483,000	350,923	833,923
2035-2039	602,000	238,595	840,595
2040-2043	751,000	98,515	849,515
	<u>\$ 2,788,000</u>	<u>\$ 2,215,058</u>	<u>\$ 5,003,058</u>

Year Ended June 30,	Sewer Revenue Bonds Series B		Total
	Principal	Interest	
2015	\$ 27,000	\$ 75,150	\$ 102,150
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
2020-2024	187,000	325,935	512,935
2025-2029	231,000	280,125	511,125
2030-2034	289,000	223,065	512,065
2035-2039	361,000	151,875	512,875
2040-2044	452,000	63,000	515,000
	<u>\$ 1,670,000</u>	<u>\$ 1,406,880</u>	<u>\$ 3,076,880</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, 2014 and 2013, the Villa Verona Assessment District had \$225,000 and \$233,000, in outstanding bonds payable, respectively.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 three 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, 2014 and 2013, the District made contributions of \$4,882 and \$4,903, 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Market value - July 1	\$ 252,019	\$ 222,962
Employee contributions	16,592	15,874
Employer contributions	4,882	4,903
Plan earnings	27,978	18,848
Withdrawals/fees	<u>(5,663)</u>	<u>(10,568)</u>
Market value - June 30	<u>\$ 295,808</u>	<u>\$ 252,019</u>

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description. The District began its defined benefit pension plan on March 1, 2006. Public Employees' Retirement System of the State of California (PERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is a cost sharing, multiple-employer pension plan administered by the California Public Employees' Retirement System. Government Code Section 20000 of the State of California assigns the authority to establish and amend benefit provisions to the State legislature. The California Public Employees' Retirement System issues a publicly available financial report and required supplementary information for the Commission. That report may be obtained by writing to California Public Employees' Retirement System, Actuarial and Employer Services Division, P.O. Box 942709, Sacramento, CA 94339-2709 or by calling (888) 225-7377.

Funding Policy. Plan members are required to contribute 8.0% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 25.075% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the state legislature.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

Beginning July 1, 2008, the District and the employees agreed to the employer paying 100% of the 8% of the employees' required PERS contribution as allowed under *Internal Revenue Code* Section 414(h)(2).

Annual Pension Cost. For 2014, the District's annual pension cost was \$127,017, and the actual pension cost for the District's employees was \$39,500. The actual amount paid by the District was \$166,517, and the actual amount paid by the employees was \$0. These amounts were equal to the District's required and actual normal cost contributions. The required contribution for fiscal year 2013/14 was determined as a part of the June 30, 2011, actuarial valuation. The required employer contribution for 2014/2015 fiscal year is 27.797% of covered payroll, and the District has agreed to pay 50% of the employee required 8% contribution. The total District contribution rate for covered payroll will be 31.797% for 2014/2015 fiscal year.

Plan Changes. On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013, valuation, which sets the 2015-16 contribution rates. For more information on PEPRA, please refer to the CalPERS website.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013, valuations, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013, actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

Three-Year Trend Information for the District

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Contributed
June 30, 2012	\$ 126,346	100%
June 30, 2013	\$ 121,785	100%
June 30, 2014	\$ 127,017	100%

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, 2014 AND 2013**

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, 2014 and 2013, the District held \$155,213 and \$155,170, respectively, in unremitted SC-OR service charges and \$0 and \$0, respectively, in unremitted facility charges that have been reported as a liability on the accompanying balance sheet as "due to other related agency." Additionally, SC-OR owed the District \$7,475 and \$14,918 at June 30, 2014 and 2013, 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, 2014 AND 2013**

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>2014</u>	<u>2013</u>
Restricted for capacity capital outlay	\$ 605,576	\$ 594,565
Restricted for revenue bond debt service	140,819	140,819
Restricted for rural development loan surcharge	<u>905,588</u>	<u>647,510</u>
Total Restricted Net Position	<u>\$ 1,651,983</u>	<u>\$ 1,382,894</u>

NOTE 12 PRIOR PERIOD ADJUSTMENT

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>

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, 2014

SCHEDULE I

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Sewer service and pumping charges	\$ 1,081,441	\$ 1,079,264	\$ (2,177)
Connection fees		9,152	9,152
Special assessment - Kelly Ridge	45,000	44,541	(459)
Other sales and services		325	325
Total Operating Revenues	1,126,441	1,133,282	6,841
Operating Expenses:			
Salaries and wages	431,022	420,980	10,042
Employee benefits	367,117	355,022	12,095
Directors' fees and benefits	32,600	27,413	5,187
Professional services	102,950	84,367	18,583
Utilities	68,580	65,274	3,306
Services and supplies	35,150	41,151	(6,001)
Training, memberships, and fees	25,676	27,464	(1,788)
Repairs and maintenance	48,205	40,816	7,389
Fuel, oil, grease, and auto	57,300	52,724	4,576
Depreciation (non-cash budgeted item)	602,796	598,275	4,521
Total Operating Expenses	1,771,396	1,713,486	57,910
Net Operating Income	(644,955)	(580,204)	64,751
Nonoperating Revenues (Expenses):			
Taxes	244,900	250,001	5,101
Interest income and customer late fees	5,331	31,360	26,029
Capacity charges		9,554	9,554
Rural development loan surcharges	353,623	353,378	(245)
Miscellaneous revenues		19,404	19,404
SC-OR pipe patch grant revenue		7,475	7,475
Bond interest expense	(195,160)	(193,640)	1,520
Total Nonoperating Revenues (Expenses)	408,694	477,532	68,838
Other Budgeted Items:			
Capitalized costs	(204,324)	(103,542)	100,782
Bond principal payments	(70,000)	(70,000)	-
Total Other Budgeted Items	(274,324)	(173,542)	100,782
Net Income (Loss) - Budget Basis	\$ (510,585)	(276,214)	\$ 234,371
Net Position - July 1, 2013		9,148,586	
Reconcile Budget to GAAP Basis:			
Capitalized employee costs		63,173	
Budgeted capital expenditures		40,369	
Bond principal payments		70,000	
Prior period adjustment		399,449	
Net Position - June 30, 2014		\$ 9,445,363	

COMPLIANCE SECTION



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

Stephen B. Norman, CPA • PFS
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, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2014.

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 2014-1 below.

2014-1 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.

September 4, 2014

**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, 2014. 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.

September 4, 2014



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

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

**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, 2014, and have issued our report thereon dated September 4, 2014. 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.

September 4, 2014