

**SIERRA LAKES
COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2016**

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Robert W. Johnson
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sierra Lakes County Water District
Soda Springs, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sierra Lakes County Water District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sierra Lakes County Water District as of June 30, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters

Required Supplementary Information

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Auditing Standards Board. Management has elected to omit the Management's Discussion and Analysis.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 30, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
September 30, 2016

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

ASSETS AND DEFERRED OUTFLOWS

Current assets:		
Cash (Note 3)		\$ 1,407,207
Accounts receivable, billings		29,316
Property taxes receivable		-
Receivable – Assessment District		44,867
Prepaid expenses		<u>7,819</u>
Total current assets		1,489,209
Capital assets, at cost (Note 4 and 5):		
Water plant	\$ 6,635,558	
Sewer plant	<u>4,392,621</u>	
	11,028,179	
Less accumulated depreciation	<u>6,121,292</u>	
	4,906,887	
Construction in progress	1,261	
Land for future use	<u>147,652</u>	
		5,055,800
Restricted assets:		
Cash with fiscal agent (Note 3)	142,439	
Cash in GASB 45 OPEB account	<u>500,023</u>	
		642,462
Deferred outflows (Note 7)		<u>38,851</u>
		<u>\$ 7,226,322</u>

See notes to financial statements

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current liabilities:

Current portion of long-term debt (Note 5)	\$ 201,300
Accounts payable and accrued charges	45,292
Accrued interest	35,150
Prepaid water and sewer revenue	-
Compensated absences	<u>5,684</u>

Total current liabilities 287,426

Non-current liabilities:

Notes payable, net of current portion (Note 5)	5,400,627
OPEB liability (Note 8)	<u>397,843</u>

Total non-current liabilities 5,798,470

Total liabilities 6,085,896

Net pension liability (Note 7) 344,382

Deferred inflows (Note 7) 88,719

Net position:

Net investment in capital assets	\$ 4,419,873
Restricted (Note 6)	256,732
Unrestricted	<u>(3,969,280)</u>

707,325

\$ 7,226,322

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended June 30, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 846,472	\$ -	\$ 846,472
Sewer service	-	1,173,952	1,173,952
Connection fees	3,650	15,600	19,250
Inspection fees	-	-	-
Penalties and costs	6,468	6,468	12,936
Other	<u>4,441</u>	<u>4,442</u>	<u>8,883</u>
Total revenues	<u>861,031</u>	<u>1,200,462</u>	<u>2,061,493</u>
Operating expenses:			
Source of supply	-	-	-
Pumping	38,627	-	38,627
Treatment	177,081	-	177,081
Transmission and distribution	208,966	-	208,966
Administrative and general	231,246	103,390	334,636
Depreciation	117,562	96,293	213,855
Collection	-	632,247	632,247
Disposal	<u>-</u>	<u>13,438</u>	<u>13,438</u>
Total operating expenses	<u>773,482</u>	<u>845,368</u>	<u>1,618,850</u>
Operating income (loss)	<u>87,549</u>	<u>355,094</u>	<u>442,643</u>
Non-operating revenues (expenses):			
Property taxes	178,351	178,351	356,702
Interest income	826	825	1,651
Interest expense	(17,235)	(140,327)	(157,562)
Capital processing costs	<u>-</u>	<u>(452,881)</u>	<u>(452,881)</u>
	<u>161,942</u>	<u>(414,032)</u>	<u>(252,090)</u>
Income (loss) before contributions (carried forward)	249,491	(58,938)	190,553

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, continued
for the year ended June 30, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Income (loss) before contributions (brought forward)	\$ 249,491	\$(58,938)	\$ 190,553
Capital contributions	<u>-</u>	<u>452,881</u>	<u>452,881</u>
Changes in net position	<u>\$ 249,491</u>	<u>\$ 393,943</u>	643,434
Total net position:			
Beginning			527,035
Prior period adjustment to record net pension liability (Note 13)			(463,144)
Ending			<u>\$ 707,325</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended June 30, 2016

Cash flows from operating activities:		
Receipts from customers		\$ 2,044,790
Payments to suppliers		(1,397,789)
Payments to employees		<u>(252,268)</u>
Net cash provided by operating activities		394,733
Cash flows from noncapital financing activities:		
Receipts from property taxes and other operating income	\$ 356,702	
OPEB liability	<u>24,105</u>	380,807
Cash flows from capital and related financing activities:		
Property additions, including work in progress	(122,811)	
Payment of long-term debt	(196,023)	
Interest expense	(157,562)	
Capital processing costs	(452,881)	
Capital contributions received	<u>452,881</u>	(476,396)
Cash flows from investing activities:		
Interest income		<u>1,651</u>
Net increase/(decrease) in cash and cash equivalents		
		300,795
Cash and cash equivalents:		
Beginning of year		<u>1,748,874</u>
End of year		<u>\$ 2,049,669</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended June 30, 2016

Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)		\$ 442,643
Prior period adjustment		(463,144)
Adjustments to reconcile operating income (loss) to net cash provided to operating activities:		
Depreciation	\$ 213,855	
Changes in operating assets, liabilities, deferred inflows and deferred outflows:		
Assessment District receivable	(13,037)	
Trade and property tax income receivable	8,942	
Prepays	983	
Payables	(998)	
Prepaid revenue	(188,761)	
Net pension liability	344,382	
Deferred inflows	88,719	
Deferred outflows	(38,851)	
		<u>415,234</u>
Net cash provided by operating activities		\$ <u>394,733</u>
Supplemental information:		
Cash paid for interest		\$ <u>157,562</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. Organization:

Sierra Lakes County Water District (the "District") was formed in 1961 and provides water service/distribution and sewer collection to residents of the District. The District's financial and administrative functions are governed by a five member Board of Directors elected by the landowners and residents of the District. The District's mission statement is to provide quality water treatment/distribution and sewer collection services at the lowest possible cost.

2. Summary of Significant Accounting Policies:

The basic financial statements of Sierra Lakes County Water District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Basis of Presentation

The District is an enterprise fund. All operations are accounted for as an enterprise fund.

Enterprise Fund – The enterprise fund is used to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial transactions of Sierra Lakes County Water District Assessment District No. 2011-1 (Assessment District No. 2011-1) are included in this report as supplemental information since this Assessment District is a separate legal entity from Sierra Lakes County Water District.

Basis of Accounting

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Basis of Accounting, continued

The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities as prescribed by the Division of Local Government Fiscal Affairs of the State of California. The records are maintained and the accompanying financial statements are presented on the accrual basis of accounting.

Operating revenues and expenses, such as water sales along with water expenses, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

Property tax revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Depreciation

Property, plant and equipment is recorded on the basis of purchase cost. Assets acquired by contributions are recorded at estimated cost or fair market value at the date of acquisition.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Statement of Cash Flows

All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Compensated Absences

Vested or accumulated vacation and comp. time (non-exempt employees) that is expected to be liquidated with expendable available financial resources is reported as an expense and as a current liability. Sick pay is not vested.

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis.

Interest Capitalization

Net interest costs are charged to construction projects during the period of construction.

Use of Estimates

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

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. Cash:

At year-end the carrying amount of the District's deposits was \$2,049,669 and the bank balance was \$3,163,992. All of the bank balance was covered by Federal depository insurance.

At June 30, 2016, the District's total cash is as follows:

	Balance June 30, <u>2016</u>
Cash:	
Imprest cash	\$ 50
Checking account – unrestricted	1,407,157
Restricted with fiscal agent	142,439
Checking account – restricted (OPEB)	<u>500,023</u>
Total cash	<u>\$2,049,669</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

3. Cash, continued:

Restricted Cash:

The District had \$142,439 in cash as of June 30, 2016, held by a fiscal agent pledged for the payment or security of a loan contract. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, policies or indentures specifying the types of investments its fiscal agents may make.

The District had \$500,023 in cash at June 30, 2016 established for OPEB (Post Employment Benefits) funding. The funds are held at a bank in an interest bearing checking account.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

4. Capital Assets:

At June 30, 2016 changes in capital assets are as follows:

	<u>Balance</u> <u>6-30-15</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>6-30-16</u>
Water:				
Source of supply	\$ 49,687	\$ -	\$ -	\$ 49,687
Pumping plant	129,994	12,956	-	142,950
Water treatment	683,796	-	-	683,796
Transmission and distribution	3,976,205	-	-	3,976,205
General plant	223,395	4,159	4,145	223,409
FMHA project	904,122	-	-	904,122
DWR project	628,830	-	-	628,830
Filter plant modification	<u>26,559</u>	<u>-</u>	<u>-</u>	<u>26,559</u>
	<u>6,622,588</u>	<u>17,115</u>	<u>4,145</u>	<u>6,635,558</u>
Sewer:				
Camera	-	10,427	-	10,427
Vehicles	260,783	-	-	260,783
Collection system	1,023,221	98,975	2,944	1,119,252
Filter plant modification	26,559	-	-	26,559
SWRQCB – sewer project	1,772,116	-	-	1,772,116
Waste disposal utility plant	779,194	-	-	779,194
Parallel sewer force main	217,842	-	-	217,842
Sewage export project	<u>206,448</u>	<u>-</u>	<u>-</u>	<u>206,448</u>
	<u>4,286,163</u>	<u>109,402</u>	<u>2,944</u>	<u>4,392,621</u>
Totals	<u>\$10,908,751</u>	<u>\$ 126,517</u>	<u>\$ 7,089</u>	<u>\$11,028,179</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. Long-term Debt:

The following is a summary of the long-term debt activities for the year ended June 30, 2016:

	<u>2015</u>	New Debt <u>Issued</u>	Debt <u>Retired</u>	<u>2016</u>	Current <u>Portion</u>
DHS loan	\$ 702,250	\$ -	\$ 66,323	\$ 635,927	\$ 68,000
USDA/Revenue Bond	<u>5,095,700</u>	<u>-</u>	<u>129,700</u>	<u>4,966,000</u>	<u>133,300</u>
	<u>\$ 5,797,950</u>	<u>\$ -</u>	<u>\$ 196,023</u>	<u>\$ 5,601,927</u>	<u>\$ 201,300</u>

DHS Loan

The District entered into a Safe Drinking Water State Revolving Fund loan with the State of California, Department of Health Services for \$1,307,195 at 2.5132% interest. The purpose of the loan is to assist in financing construction of a project to enable the District to meet safe drinking water standards.

The \$1,307,195 loan will be payable in semi-annual payments of \$41,779 commencing January 1, 2005 through January 1, 2025.

At June 30, 2016 the District maintained a required loan reserve of \$142,439.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. Long-term Debt (continued):

USDA/Revenue Bond

On March 28, 2014 the District issued revenue bonds in the amount of \$5,222,000 for purposes of improving the sewer facility. The bonds bear interest at 2.75% and mature on March 28, 2042. Interest is payable March 28 and September 28 (principal is payable annually commencing March 28, 2015). A debt service reserve is required in an amount at least equal to an average annual loan installment.

The future annual maturities of all long-term borrowings as of June 30, 2016 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 201,300	\$ 152,123	\$ 353,423
2018	206,720	146,737	353,457
2019	212,183	141,206	353,389
2020	217,891	135,529	353,420
2021	223,744	129,699	353,443
2022-2026	1,084,889	556,999	1,641,888
2027-2031	923,600	425,675	1,349,275
2032-2036	1,057,700	291,503	1,349,203
2037-2041	1,211,400	137,844	1,349,244
2042	<u>262,500</u>	<u>7,219</u>	<u>269,719</u>
	<u>\$5,601,927</u>	<u>\$2,124,534</u>	<u>\$7,726,461</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Restricted Net Position:

At June 30, 2016 District equity reserves consist of:

Reserve for debt service	\$ 142,439
Capital improvement reserves:	
Water	20,819
Sewer	<u>93,474</u>
	<u>\$ 256,732</u>

7. Defined Benefit Retirement Plan:

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. The District participates in the miscellaneous 2% at 60 risk pool. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All District permanent employees are eligible to participate in the System. Benefits vest after five years of service. District employees who retire at age 50 to 63 and with over 5 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.426 to 2.418 percent of their average salary during their last 36 months of employment. A menu of benefits provision as well as other requirements is established by State Statutes within the Public Employees Retirement Law. The plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

Funding Policy

Covered employees are required by statute to contribute 7.0 percent of their salary to the plan after a formula to coordinate with Social Security. The District is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. The District is required to contribute at an actuarially determined rate.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Classic</u>	<u>PEPRA</u>
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55+	55+
Required employee contribution rates	7%	6.25%
Required employer contribution rates	7.159%	6.555%

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

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 both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense were as follows:

Contributions – employer	\$ 12,052
Contributions – employee	\$ 21,348

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

As of June 30, 2016, the District reported net pension liability as follows:

Net pension liability	\$ <u>344,382</u>
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The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

For the year ended June 30, 2016, the District recognized pension income of \$35,494. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Adjustments due to differences in proportions	\$ 4,585	\$ -
Differences between projected and actual earnings on pension plan investments	-	80,528
Difference between expected and actual experience	866	-
Changes in assumptions	-	8,191
Pension contributions subsequent to measurement date	<u>33,400</u>	<u>-</u>
	<u>\$ 38,851</u>	<u>\$ 88,719</u>

\$33,400 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2017	\$(26,540)
2018	(27,050)
2019	(28,564)
2020	(1,114)
2021	-
Thereafter	-

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3%-14.2%
Investment Rate of Return	7.5%

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent 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.

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 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.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

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.

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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
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	<u>2.0%</u>	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

SIERRA LAKES COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

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:

	<u>Miscellaneous</u>
1% Decrease Net Pension Liability	6.65% \$577,552
Current Discount Rate Net Pension Liability	7.65% \$344,382
1% Increase Net Pension Liability	8.65% \$151,872

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

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Post Employment Benefits:

Plan Description

In addition to pension benefits, the District provides certain healthcare benefits through ACWA Health Benefits Authority for retired employees and their survivor dependents, subject to certain conditions. The District's employees become eligible for benefits "after retirement in accordance with regulations prescribed by CalPERS." At June 30, 2016, seven retired employees/survivor dependents met those eligibility requirements. Covered employees are not required to make contributions to receive the benefits. The actuarially accrued liability was \$1,039,291 of which \$500,000 was funded at June 30, 2016.

Funding Policy

The contribution requirements of the District and plan members are established and may be amended by the District's Board of Directors. During 2011, the District adopted a policy to fully fund the Annual Required Contribution (ARC), for these benefits. The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 38.04 percent of the annual covered payroll. The District established a cash reserve account (requiring board action and two board signatures to access funds) and funded \$500,000 at June 30, 2016. Annual additional funding will be \$25,000 per year until OPEB is fully funded.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Post Employment Benefits, continued:

Funding Policy, continued

The District's ARC was \$80,088 for the year ended June 30, 2016. This contribution includes the normal cost of \$38,141 and \$41,947 to amortize the UAAL.

The liability was determined using the Entry Age Normal Cost method. The actuarial assumptions included an interest rate of 2.50 percent in 2016.

Annual OPEB Cost and Net OPEB Obligation (Asset)

The following table shows the components of the District's annual OPEB cost for the year, the amounts actually contributed to the plan, and changes in the District's Net OPEB obligation for the year ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 80,088	\$ 106,038
Interest on net OPEB obligation	9,343	8,580
Adjustment to annual required contribution	<u>(14,716)</u>	<u>(10,863)</u>
Annual OPEB cost (expense)	74,715	103,755
Contributions made	<u>50,610</u>	<u>51,790</u>
(Increase) decrease in net asset	24,105	51,965
Net OPEB obligation (asset) – beginning of year	<u>373,738</u>	<u>321,773</u>
Net OPEB obligation (asset) – end of year	<u>\$ 397,843</u>	<u>\$ 373,738</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Post Employment Benefits, continued:

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

9. Risk of Loss:

Sierra Lakes County Water District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2016 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

10. Sewage Processing:

Contract costs of the service agreement with Donner Summit Public Utility District for processing sewage generated by the District are expensed as incurred; also expensed are the improvement project costs for the wastewater treatment plant. Regular processing costs including prior year adjustments received are recorded as operating expenses; capital processing costs are recorded as non-operating expense.

Donner Summit Public Utility District (DSPUD) and Sierra Lakes County Water District (the "District") have cooperatively completed a capital improvement project of approximately \$26 million to make modifications to the DSPUD wastewater treatment plant in order to comply with regulatory requirements for the operation of the plant.

The agreement for allocating excess capacity in the wastewater treatment plant has been completed and agreed upon by both Boards of Directors. Payment from DSPUD is in progress.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

11. Contingency:

There is only one potential lawsuit concerning ownership of a portion of the Serene Lakes parcel. There are no ongoing legal costs at this time.

12. Subsequent Events:

Management has evaluated subsequent events through September 30, 2016, the date these June 30, 2016 financial statements were available to be issued.

13. Prior Period Adjustment:

Pursuant to the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District was required to recognize long-term obligation for pension benefits as a liability on the statement of net position. At June 30, 2016 a prior period adjustment of \$463,144 was made to recognize the District's pension obligation.

SUPPLEMENTAL DATA

SIERRA LAKES COUNTY WATER DISTRICT
PRINCIPAL OFFICIALS
June 30, 2016

Board of Directors:

Karen Heald	President
Michael Lindquist	Vice President
Bill Oudegeest	Director
Richard W. Freedle	Director
Dan Stockton	Director

Management:

Bill Quesnel	General Manager
Anna Nickerson	Financial Consultant/ Secretary of the Board

SIERRA LAKES COUNTY WATER DISTRICT
 SCHEDULE OF FUNDING PROGRESS –
 Other Post-Employment Benefits (OPEB)
 For the year ended June 30, 2016

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) – (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (4) / (5)
7/1/09	\$ -	\$1,282,427	0.00%	\$1,282,427	\$243,000	527.7%
7/1/12	\$ -	\$1,264,556	0.00%	\$1,264,556	\$200,000	632.3%
7/1/15	\$500,000	\$1,039,291	48.11%	\$ 539,291	\$210,534	493.6%

SIERRA LAKES COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY

As of June 30, 2016

Last 10 years (1)

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01255%	0.00625%
Proportionate share of the net pension liability	\$ 344,382	\$ 388,716
Covered – employee payroll	\$ 209,197	\$ 199,147
Proportionate Share of the net pension liability as percentage of covered-employee payroll	164.620%	195.19%
Plan's fiduciary net position	\$1,535,687	\$1,476,608
Plan fiduciary net position as a percentage of the total pension liability	81.68%	79.16%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes in assumptions: None

(1) Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

SIERRA LAKES COUNTY WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

As of June 30, 2016

Last 10 years (1)

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 43,307	\$ 26,862
Contributions in relation to the actuarially determined contributions	<u>53,204</u>	<u>(26,862)</u>
Contribution deficiency (excess)	\$(9,897)	\$ -
Covered – employee payroll	\$209,197	\$199,147
Contributions as a percentage of covered employee payroll	25.43%	13.49%
Notes to Schedule:		
Valuation date:	6/30/2014	6/30/2013

Methods and assumptions used to determine contribution rates:

Amortization method	Entry Age Normal Cost Method
Remaining amortization period	15 years
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.5% Net of Pension Plan Investment and Admin. Expenses

(1) Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

ASSESSMENT DISTRICT NO. 2011-1
STATEMENT OF NET POSITION – BOND FUND
June 30, 2016

ASSETS

Cash – checking	\$1,113,036
Future assessments receivable	<u>7,596,190</u>
	<u>\$8,709,226</u>

LIABILITIES AND NET POSITION

Payable to Sierra Lakes County Water District	\$ 44,867
Assessment bond payable	7,795,632
Net Position	<u>868,727</u>
	<u>\$8,709,226</u>

ASSESSMENT DISTRICT NO. 2011-1
 BOND DEBT
 June 30, 2016

On October 14, 2011 the Board of Directors approved Resolution No. 2011-801 which established Assessment District No. 2011-1, pursuant to the Municipal Improvement Act of 1913. The Board's purpose was to finance a portion of the District's share of the cost of upgrades to the wastewater treatment plant that serves the District by issuance of improvement bonds.

On January 14, 2012 the property owners of the District approved a total assessment levy of \$9,574,174 that will be represented by bonds to be issued by the Assessment District.

On July 17, 2014 the Assessment District issued \$7,973,975 in bonds under the Improvement Bond Act of 1915.

The bonds are payable to the United States of America, through the Rural Utilities Service of the United States Department of Agriculture, Rural Development in varying annual amounts through 2053. Assessments have been pledged to secure the issuance of these bonds.

The interest rate is 2 ¾%, payable on March 2, 2015 and thereafter semiannually on March 2 and September 2 in each year.

The following is a summary of bond debt activities for the year ended June 30, 2016:

	<u>2015</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>2016</u>	<u>Current Portion</u>
Bonds	<u>\$6,712,743</u>	<u>\$1,167,789</u>	<u>\$84,900</u>	<u>\$7,795,632</u>	<u>\$120,274</u>

ASSESSMENT DISTRICT NO. 2011-1
 ANALYSIS OF NET POSITION – BOND FUND
 for the year ended June 30, 2016

Net Position – Bond Fund:

Activities for the year consist of:

Balance, June 30, 2015		\$1,296,127
Add, Admin. fees	\$ 10,606	
Interest income	213,179	
Other	<u>132</u>	
		223,917
Deduct, contributions to		
District (project costs)	452,881	
Interest expense	194,673	
County administration fees	<u>3,763</u>	
		(651,317)
		<u>\$ 868,727</u>

INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
AND COMPLIANCE



Robert W. Johnson
an accountancy corporation

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www.bob-johnson-cpa.com

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

To the Board of Directors
Sierra Lakes County Water District
Soda Springs, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts, the financial statements of Sierra Lakes County Water District as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain other minor matters that we reported to management of the Sierra Lakes County Water District in a separate letter dated September 30, 2016.

Purpose of this Report

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

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
September 30, 2016



Robert W. Johnson
an accountancy corporation

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September 30, 2016

To the Board of Directors
Sierra Lakes County Water District
P.O. Box 1039
Soda Springs, CA 95728

We have audited the financial statements of Sierra Lakes County Water District for the year ended June 30, 2016, and have issued our report thereon dated September 30, 2016. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated May 19, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 19, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the

appropriateness of accounting policies and their application. The significant accounting policies used by Sierra Lakes County Water District are described in Note 2 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Accrual and disclosure of compensated absences: Management's estimate is based on information collected by the District using current pay rates and District's policy on employee use of compensating time-off. Our audit agreed balances reported in the financial statements to those in the District calculated spreadsheets.
- Capital asset lives and the related depreciation expense: Management's estimate is based on the District's policy of depreciating assets. We scanned asset listings for reasonable compliance to this approach.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Robert W. Johnson, An Accountancy Corporation