

**SIERRA LAKES
COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2018**

ROBERT W. JOHNSON
Certified Public Accountant

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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, 2018, 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, 2018, 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 August 31, 2018 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

August 31, 2018

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS

Current assets:		
Cash (Note 3)		\$ 2,271,244
Accounts receivable, billings		39,266
Loan receivable (Note 12)		65,575
Prepaid expenses		<u>7,708</u>
Total current assets		2,383,793
Capital assets, at cost (Note 4):		
Water plant	\$ 6,875,076	
Sewer plant	<u>4,500,913</u>	
	11,375,989	
Less accumulated depreciation	<u>(6,572,737)</u>	
	4,803,252	
Construction in progress	35,796	
Land	<u>157,035</u>	
		4,996,083
Restricted assets (Note 3):		
Cash with fiscal agent	175,337	
Cash in OPEB account	<u>608,154</u>	
		783,491
Non current portion of Loan receivable (Note 12)		196,725
Deferred outflows (Notes 7 and 8)		
Pension related amounts	113,219	
OPEB related amounts	<u>38,682</u>	
		<u>151,901</u>
		<u>\$ 8,511,993</u>

See notes to financial statements

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current liabilities:

Current portion of long-term debt (Note 5)	\$ 212,380
Accounts payable and accrued charges	52,767
Accrued interest	31,375
Compensated absences	<u>8,927</u>

Total current liabilities 305,449

Non-current liabilities:

Notes payable, net of current portion (Note 5)	4,990,344
Net pension liability (Note 7)	29,113
Total OPEB liability (Note 8)	<u>718,117</u>

Total non-current liabilities 5,737,574

Total liabilities 6,043,023

Deferred inflows related to pension (Note 7) 66,506

Net position:

Net investment in capital assets	\$ 4,497,876
Restricted (Note 6)	376,255
Unrestricted	<u>(2,471,667)</u>

2,402,464

\$8,511,993

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended June 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 850,793	\$ -	\$ 850,793
Sewer service	-	1,180,031	1,180,031
Connection fees	10,950	46,800	57,750
Penalties and costs	5,177	5,177	10,354
Other	<u>3,327</u>	<u>3,327</u>	<u>6,654</u>
Total revenues	<u>870,247</u>	<u>1,235,335</u>	<u>2,105,582</u>
Operating expenses:			
Pumping	43,860	-	43,860
Treatment	216,875	-	216,875
Transmission and distribution	296,391	-	296,391
Administrative and general	135,596	116,765	252,361
Depreciation	122,236	106,503	228,739
Collection	-	691,080	691,080
Disposal	<u>-</u>	<u>6,020</u>	<u>6,020</u>
Total operating expenses	<u>814,958</u>	<u>920,368</u>	<u>1,735,326</u>
Operating income	<u>55,289</u>	<u>314,967</u>	<u>370,256</u>
Non-operating revenues (expenses):			
Property taxes	207,120	207,120	414,240
Interest income	1,210	1,210	2,420
Interest expense	<u>(13,838)</u>	<u>(131,814)</u>	<u>(145,652)</u>
	<u>194,492</u>	<u>76,516</u>	<u>271,008</u>
Income before contributions (carried forward)	249,781	391,483	641,264

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, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Income before contributions (brought forward)	\$ 249,781	\$ 391,483	\$ 641,264
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	<u>\$ 249,781</u>	<u>\$ 391,483</u>	641,264
Total net position:			
Beginning of year			2,044,817
Prior period adjustment to record OPEB liability pursuant to GASB 75 (Note 13)			<u>(283,617)</u>
End of year			<u>\$2,402,464</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended June 30, 2018

Cash flows from operating activities:		
Receipts from customers		\$ 2,163,973
Payments to suppliers		(1,693,330)
Payments to employees		<u>(294,401)</u>
Net cash provided by operating activities		176,242
Cash flows from noncapital financing activities:		
Receipts from property taxes and other operating income	\$ <u>414,240</u>	414,240
Cash flows from capital and related financing activities:		
Property additions, including work in progress	(206,142)	
Payment of long-term debt	(207,287)	
Interest expense	(145,652)	
New debt issued – Bond Fund	<u>9,384</u>	
		(549,697)
Cash flows from investing activities:		
Interest income		<u>2,420</u>
Net increase/(decrease) in cash and cash equivalents		43,205
Cash and cash equivalents:		
Beginning of year		<u>3,011,530</u>
End of year		<u>\$ 3,054,735</u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents		\$ 2,271,244
Restricted - cash and cash equivalents		<u>783,491</u>
		<u>\$ 3,054,735</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended June 30, 2018

Reconciliation of operating income to net cash provided by operating activities:		
Operating income		\$ 370,256
Adjustments to reconcile operating income (loss) to net cash provided to operating activities:		
Depreciation	\$ 228,739	
Changes in operating assets, liabilities, deferred inflows and deferred outflows:		
Trade receivables	58,391	
Prepays	479	
Payables	3,877	
Compensated absences	1,293	
Net pension liability	(422,931)	
Net OPEB liability	11,439	
Deferred outflows of resources - pension	(12,430)	
Deferred outflows of resources - OPEB	(38,682)	
Deferred inflows of resources - pension	<u>(24,189)</u>	
		(194,014)
Net cash provided by operating activities		<u>\$ 176,242</u>
Supplemental information:		
Cash paid for interest		<u>\$ 146,737</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.

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

3. Cash:

At year-end the carrying amount of the District's deposits was \$3,054,735 and the bank balance was \$3,072,174. All of the bank balance was covered by Federal depository insurance.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

3. Cash, continued:

At June 30, 2018, the District's total cash is as follows:

	Balance June 30, <u>2018</u>
Cash:	
Imprest cash	\$ 50
Checking account – unrestricted	2,271,194
Restricted with fiscal agent	175,337
Checking account – restricted (OPEB)	<u>608,154</u>
Total cash	<u>\$3,054,735</u>

Restricted Cash:

The District had \$175,337 in cash as of June 30, 2018, 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 \$608,154 in cash at June 30, 2018 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, 2018 changes in capital assets are as follows:

	<u>Balance</u> <u>6-30-17</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>6-30-18</u>
Water:				
Source of supply	\$ 49,687	\$ -	\$ -	\$ 49,687
Pumping plant	142,950	-	-	142,950
Water treatment	683,796	-	-	683,796
Transmission and distribution	4,111,694	26,764	-	4,138,458
General plant	226,018	15,286	-	241,304
FMHA project	904,122	-	-	904,122
DWR project	628,830	-	-	628,830
Filter plant modification	<u>26,559</u>	<u>59,370</u>	<u>-</u>	<u>85,929</u>
	<u>6,773,656</u>	<u>101,420</u>	<u>-</u>	<u>6,875,076</u>
Sewer:				
Camera	10,427	-	-	10,427
Vehicles	292,127	-	-	292,127
Collection system	1,121,544	15,286	-	1,136,830
Filter plant modification	26,559	59,370	-	85,929
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>4,426,257</u>	<u>74,656</u>	<u>-</u>	<u>4,500,913</u>
Construction in progress	15,103	20,693	-	35,796
Land	<u>147,662</u>	<u>9,373</u>	<u>-</u>	<u>157,035</u>
Totals	<u>\$11,362,678</u>	<u>\$ 206,142</u>	<u>\$ -</u>	<u>\$11,568,820</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, 2018:

	<u>2017</u>	New Debt <u>Issued</u>	Debt <u>Retired</u>	<u>2018</u>	Current <u>Portion</u>
DHS loan	\$ 567,927	\$ -	\$ 69,720	\$ 498,207	\$ 71,483
USDA/Revenue Bond	4,832,700	-	137,000	4,695,700	140,700
Bond Fund	<u>-</u>	<u>9,384</u>	<u>567</u>	<u>8,817</u>	<u>197</u>
	<u>\$ 5,400,627</u>	<u>\$ 9,384</u>	<u>\$ 207,287</u>	<u>\$5,202,724</u>	<u>\$ 212,380</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, 2018 the District maintained a required loan reserve of \$175,337.

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.

Bond Fund

The District purchased a vacant lot which carried a liability to the Assessment District of \$9,384. This liability is payable through 2053 in annual payments of \$444 through 2024 and \$403 through 2053 respectively, including 2.75% interest.

The future annual maturities of all long-term borrowings as of June 30, 2018 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 212,380	\$ 141,453	\$ 353,833
2020	218,092	135,772	353,864
2021	223,950	129,937	353,887
2022	229,955	123,946	353,901
2023	236,108	117,794	353,902
2024-2028	974,637	502,020	1,476,657
2029-2033	976,181	375,112	1,351,293
2034-2038	1,117,937	233,307	1,351,244
2039-2043	1,010,417	70,902	1,081,319
2044-2048	1,622	393	2,015
2049-2053	<u>1,445</u>	<u>157</u>	<u>1,602</u>
	<u>\$5,202,724</u>	<u>\$1,830,793</u>	<u>\$7,033,517</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Restricted Net Position:

At June 30, 2018 District equity reserves consist of:

Reserve for debt service	\$ 175,337
Capital improvement reserves:	
Water	163,674
Sewer	<u>37,244</u>
	<u>\$ 376,255</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, 2018, 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	7.200%	6.533%

In August 2017 the District paid \$487,963 to CalPERS to reduce unfunded net pension liability for both Classic and PEPRA plans.

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, 2018, the contributions recognized as part of pension expense were as follows:

Contributions	\$ <u>15,002</u>
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A. ***Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:***

As of June 30, 2018, the District reported net pension liability as follows:

Net pension liability	\$ <u>29,113</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, 2017, 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, 2016 rolled forward to June 30, 2017 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. The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 was as follows:

	<u>Miscellaneous Plan</u>
Proportion June 30, 2016	0.0130127
Proportion June 30, 2017	<u>0.0131169</u>
Change – Increase/(Decrease)	<u>-0.0001042</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Defined Benefit Retirement Plan, continued:

For the year ended June 30, 2018, the District recognized pension expense of \$71,985. At June 30, 2018, 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	\$ -	\$ 57,332
Differences between projected and actual earnings on pension plan investments	19,317	-
Difference between expected and actual experience	-	9,174
Changes in assumptions	78,900	-
Pension contributions subsequent to measurement date	<u>15,002</u>	<u>-</u>
	<u>\$ 113,219</u>	<u>\$ 66,506</u>

\$15,002 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, 2019. 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>	
2018	\$(1,881)
2019	28,886
2020	16,175
2021	(11,469)
2022	-
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, 2017 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.15%
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 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

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	6.15%
Net Pension Liability	\$ 318,082
Current Discount Rate	7.15%
Net Pension Liability	\$ 29,113
1% Increase	8.15%
Net Pension Liability (Asset)	\$(210,217)

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. Other Postemployment Benefits “OPEB”:

Plan Description

In addition to pension benefits, the District provides certain healthcare benefits through CalPERS 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, 2017, six retired employees/survivor dependents met those eligibility requirements. Covered employees are not required to make contributions to receive the benefits.

Total OPEB Liability

The District’s net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Discount rate	3.5%
Inflation	2.75%
Payroll Increase	2.75%
Healthcare Trend	4%

Discount Rate

The discount rate used to measure the total OPEB liability was 3.5%. The discount rate is based on an index of 20 year General Obligation municipal bonds.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Other Postemployment Benefits “OPEB”, continued:

Change in Total OPEB Liability as of June 30, 2017

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Total OPEB Liability</u>
Rollback balance at June 30, 2016	\$ <u>706,678</u>	\$ <u>-</u>	\$ <u>706,678</u>
Changes recognized for the measurement period:			
Service cost	24,041	-	24,041
Interest on total OPEB liability	24,494	-	24,494
Employer contributions	-	37,096	(37,096)
Benefit payments	<u>(37,096)</u>	<u>(37,096)</u>	<u>-</u>
Net changes during July 1, 2016 to June 30, 2017	<u>11,439</u>	<u>-</u>	<u>11,439</u>
Balance at June 30, 2017 (Measurement Date)	<u>\$ 718,117</u>	<u>\$ -</u>	<u>\$ 718,117</u>

Sensitivity of the Total OPEB liability to changes in the discount rate

The following presents the total OPEB liability with a discount rate 1% higher and 1% lower than assumed in the valuation:

	<u>Discount Rate 1% Lower</u>	<u>Valuation Discount Rate 3.5%</u>	<u>Discount Rate 1% Higher</u>
Total OPEB liability	<u>\$ 801,356</u>	<u>\$ 718,117</u>	<u>\$ 648,116</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Other Postemployment Benefits “OPEB”, continued:

Sensitivity of the Total OPEB liability to changes in healthcare cost trend rates

The following presents the total OPEB liability with a healthcare cost trend rate 1% higher and 1% lower than assumed in the valuation:

	<u>Trend 1% Lower</u>	<u>Valuation Trend 4%</u>	<u>Trend 1% Higher</u>
Total OPEB liability	\$ <u>646,737</u>	\$ <u>718,117</u>	\$ <u>802,558</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018 the District recognized OPEB expense of \$87,217. Under GASB 74 and 75, OPEB expense includes service cost, interest cost, change in total OPEB liability due to plan changes; all adjusted for deferred inflows and outflows. The District determined that it was not reasonable to rerun prior valuations under GASB 75. The transition approach provided by GASB 75, Paragraph 244 was used. Therefore, there are no deferred inflows/outflows in the first year (with the possible exception of contributions after the measurement date). As such, \$38,682 in contributions made after the measurement date are reflected as deferred outflows at June 30, 2018.

Funding Policy

The District has no plan assets in a CERBT trust fund. The District did, however, establish a cash reserve fund (requiring board action and two board signatures to access funds). At June 30, 2018 cash held in OPEB bank account is \$608,154.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

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 2018 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.

11. Subsequent Events:

Management has evaluated subsequent events through August 31, 2018, the date these June 30, 2018 financial statements were available to be issued.

12. Receivable – Project Reimbursement:

At June 30, 2018 the District has a receivable from DSPUD for reimbursement of project costs (excess capacity credit). The \$262,300 is receivable in annual payments of \$65,575 plus 2.75% through 2021.

13. Prior Period Adjustment:

The District's net position at July 1, 2017 was restated by \$283,617 to reflect the OPEB beginning balance in accordance with the implementation of GASB 75.

SUPPLEMENTAL DATA

SIERRA LAKES COUNTY WATER DISTRICT
PRINCIPAL OFFICIALS

Board of Directors:

Michael Lindquist	President
Dan Stockton	Vice President
Bill Oudegeest	Director
Karen Heald	Director
Richard Simpson	Director

Management:

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

SIERRA LAKES COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
As of June 30, 2018
Last 10 years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	.013117%	.01301%	0.01255%	0.00625%
Proportionate share of the net pension liability	\$ 517,076 (2)	\$ 452,044	\$ 344,382	\$ 388,716
Covered – employee payroll	\$ 214,138	\$ 204,488	\$ 209,197	\$ 199,147
Proportionate Share of the net pension liability as percentage of covered-employee payroll	241.47%	221.06%	164.620%	195.19%
Plan's fiduciary net position	\$1,529,839	\$1,475,762	\$1,535,687	\$1,476,608
Plan fiduciary net position as a percentage of the total pension liability	74.74%	76.55%	81.68%	79.16%

Changes in assumptions: None

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

(2) In August 2017 the District paid \$487,963 to CalPERS to reduce unfunded net pension liability for both classic and PEPRA plans.

SIERRA LAKES COUNTY WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

As of June 30, 2018

Last 10 years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 15,002	\$ 40,812	\$ 43,307	\$ 26,862
Contributions in relation to the actuarially determined contributions	<u>15,002</u>	<u>40,812</u>	<u>53,204</u>	<u>(26,862)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(9,897)</u>	\$ <u>-</u>
Covered – employee payroll	\$ 214,138	\$ 204,488	\$ 209,197	\$199,147
Contributions as a percentage of covered employee payroll	7.01%	19.96%	25.43%	13.49%
Notes to Schedule:				
Valuation date:	6/30/17	6/30/16	6/30/15	6/30/14

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
Discount rate	7.15% Net of Pension Plan Investment and Admin. Expenses

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

SIERRA LAKES COUNTY WATER DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
As of June 30, 2018

	2018
Total OPEB liability:	
Service cost	\$ 24,041
Interest on total OPEB liability	24,494
Benefit payments	(37,096)
Net change in total OPEB liability	11,439
Total OPEB liability, beginning	<u>706,678</u>
Total OPEB liability, ending	718,117
OPEB Fiduciary net position, beginning and ending	<u>-</u>
Net OPEB liability	<u>\$ 718,117</u>
Covered-employee payroll	\$ 214,138
Plan net OPEB liability as a percentage of covered-employee payroll	335.35%

Notes to Schedule:

Changes in assumptions: none

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

ASSESSMENT DISTRICT NO. 2011-1
STATEMENT OF NET POSITION – BOND FUND
June 30, 2018

ASSETS

Cash – checking	\$ 481,759
Future assessments receivable	<u>7,275,817</u>
	<u>\$7,757,576</u>

LIABILITIES AND NET POSITION

Assessment bond payable	\$7,556,922
Net Position	<u>200,654</u>
	<u>\$7,757,576</u>

ASSESSMENT DISTRICT NO. 2011-1
BOND DEBT
June 30, 2018

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, 2018:

	<u>2017</u>	New Debt <u>Issued</u>	Debt <u>Retired</u>	<u>2018</u>	Current <u>Portion</u>
Bonds	<u>\$7,677,927</u>	\$ <u>-</u>	<u>\$121,005</u>	<u>\$7,556,922</u>	<u>\$ 125,000</u>

ASSESSMENT DISTRICT NO. 2011-1
ANALYSIS OF NET POSITION – BOND FUND
for the year ended June 30, 2018

Net Position – Bond Fund:

Activities for the year consist of:

Balance, June 30, 2017		\$ 194,856
Add, Admin. fees	\$ 10,645	
Interest income	208,039	
Other	<u>352</u>	
		219,036
Deduct,		
Interest expense	209,479	
County administration fees	<u>3,759</u>	
		(<u>213,238</u>)
		\$ <u>200,654</u>

INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
AND COMPLIANCE



**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, 2018, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2018.

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 August 31, 2018.

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
August 31, 2018

**SIERRA LAKES
COUNTY WATER DISTRICT**

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

June 30, 2018

ROBERT W. JOHNSON
Certified Public Accountant



Robert W. Johnson
an accountancy corporation

6234 Birdcage Street, Citrus Heights, California 95610 | robertwjohansoncpagroup@gmail.com | 916.723.2555
www.bob-johnson-cpa.com

August 31, 2018

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

We have audited the financial statements of Sierra Lakes County Water District as of and for the year ended June 30, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards* and the State Controller's Minimum Audit Requirements for California Special Districts.

In planning and performing our audit of the financial statements of Sierra Lakes County Water District as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Sierra Lakes County Water District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we have enclosed other recommendations for your consideration.

This communication is intended solely for the information and use of 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

Robert W. Johnson, An Accountancy Corporation

1. Operating Results:

	June 30,		Favorable/ (Unfavorable)
	<u>2017</u>	<u>2018</u>	<u>Variance</u>
Operating revenues	\$ 1,564,605	\$ 2,105,582	\$ 540,977
Operating expenses	<u>1,791,948</u>	<u>1,735,326</u>	<u>56,622</u>
Operating income (loss)	(227,343)	370,256	597,599
Non-operating revenue, net	885,527	271,008	(614,519)
Capital contributions	<u>679,298</u>	<u>-</u>	<u>(679,298)</u>
Net income (loss)	<u>\$ 1,337,482</u>	<u>\$ 641,264</u>	<u>\$(696,218)</u>
Operating cash	<u>\$ 2,298,628</u>	<u>\$ 2,271,244</u>	<u>\$(27,384)</u>

Observation:

- 2018 was a more standard year because in 2017 the following one-time transactions occurred:
 1. \$506,499 rebate paid to customers
 2. \$655,749 recovery received from DSPUD Wastewater Treatment Plant Project and,
 3. \$679,298 capital contribution recorded
- \$27,384 less operating cash at end of 2017-18 fiscal year.

2. Prior Year Recommendation:

Reserve Policies and Facility Fee Revenue:

Recommendation:

We recommended that the Board review the restrictions for spending facility fee revenue with legal counsel to determine the nature of capital expenses that may be charged against facility fees (collected for water and sewer operations). At June 30, 2018 the District had capital improvement restricted funds of \$163,674 (sewer) and \$37,244 (water).

Follow-up:

Board will include in review of District's policies and procedures.

3. Ethics Training:

Observation:

California Law AB 1234 requires special districts to provide ethics training to their board members. The training must be completed once during each two-year period.

Recommendation:

One of the five board members is out of compliance. The mandatory ethics training course should be completed as soon as possible.