

**SIERRA LAKES
COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2015**

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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, 2015, 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, 2015, 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 District is required by Governmental Accounting Standards Board (GASB) Statement 68 to record the unfunded pension liability at June 30, 2015. California Public Employees' Retirement System (CalPERS), with responsibility to produce valuation reports for the pension liability computation, advised that valuation reports are not completed. The attached June 30, 2015 financial statements do not therefore reflect the pension liability.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2015 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 4, 2015

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current assets:

Cash (Note 3)		\$ 1,622,793
Accounts receivable, billings		12,613
Property taxes receivable		25,645
Receivable – Assessment District		31,830
Prepaid expenses		<u>8,802</u>

Total current assets 1,701,683

Capital assets, at cost (Note 4 and 5):

Water plant		\$ 6,622,588
Sewer plant		<u>4,286,163</u>
		10,908,751

Less accumulated depreciation		<u>5,914,526</u>
		4,994,225

Construction in progress		4,967
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Land for future use		<u>147,652</u>
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5,146,844

Restricted assets:

Cash with fiscal agent (Note 3)		<u>126,081</u>
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\$ 6,974,608

See notes to financial statements

LIABILITIES AND NET POSITION

Current liabilities:

Current portion of long-term debt (Note 5)	\$ 196,023
Accounts payable and accrued charges	45,469
Accrued interest	34,955
Prepaid water and sewer revenue	188,761
Compensated absences	<u>6,700</u>
Total current liabilities	<u>471,908</u>

Non-current liabilities:

Notes payable, net of current portion (Note 5)	5,601,927
OPEB liability (Note 8)	<u>373,738</u>
Total non-current liabilities	<u>5,975,665</u>
Total liabilities	<u>6,447,573</u>

Net position:

Net investment in capital assets (deficit)	\$(651,106)
Restricted (Note 6)	221,124
Unrestricted	<u>957,017</u>
	<u>527,035</u>
	<u>\$ 6,974,608</u>

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended June 30, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 849,313	\$ -	\$ 849,313
Sewer service	-	1,177,967	1,177,967
Connection fees	1,825	7,800	9,625
Inspection fees	-	-	-
Penalties and costs	13,056	13,056	26,112
Other	<u>2,387</u>	<u>2,386</u>	<u>4,773</u>
Total revenues	<u>866,581</u>	<u>1,201,209</u>	<u>2,067,790</u>
Operating expenses:			
Source of supply	-	-	-
Pumping	36,495	-	36,495
Treatment	192,416	-	192,416
Transmission and distribution	201,052	-	201,052
Administrative and general	364,985	120,434	485,419
Depreciation	112,363	93,186	205,549
Collection	-	574,364	574,364
Disposal	<u>-</u>	<u>4,334</u>	<u>4,334</u>
Total operating expenses	<u>907,311</u>	<u>792,318</u>	<u>1,699,629</u>
Operating income (loss)	<u>(40,730)</u>	<u>408,891</u>	<u>368,161</u>
Non-operating revenues (expenses):			
Property taxes	182,450	182,450	364,900
Interest income	127	126	253
Interest expense	(18,871)	(69,775)	(88,646)
Capital processing costs	<u>-</u>	<u>(8,367,884)</u>	<u>(8,367,884)</u>
	<u>163,706</u>	<u>(8,255,083)</u>	<u>(8,091,377)</u>
Income (loss) before contributions (carried forward)	122,976	(7,846,192)	(7,723,216)

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, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Income (loss) before contributions (brought forward)	\$ 122,976	\$(7,846,192)	\$(7,723,216)
Capital contributions	<u>-</u>	<u>8,367,884</u>	<u>8,367,884</u>
Changes in net position	<u>\$ 122,976</u>	<u>\$ 521,692</u>	644,668
Total net position:			
Beginning deficit			(<u>117,633</u>)
Ending			<u>\$ 527,035</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended June 30, 2015

Cash flows from operating activities:		
Receipts from customers		\$ 2,145,710
Receivable from Assessment District		6,394,297
Payments to suppliers		(1,325,181)
Payments to employees		<u>(232,520)</u>
Net cash provided by operating activities		6,982,306
Cash flows from noncapital financing activities:		
Receipts from property taxes and other operating income	\$ 364,900	
OPEB liability	<u>51,965</u>	416,865
Cash flows from capital and related financing activities:		
Property additions, including land and work in progress	(70,563)	
Payment of long-term debt	(6,356,463)	
Interest expense	(88,646)	
Capital processing costs	(8,367,884)	
Capital contributions received	<u>8,367,884</u>	(6,515,672)
Cash flows from investing activities:		
Interest income		<u>253</u>
Net increase/(decrease) in cash and cash equivalents		883,752
Cash and cash equivalents:		
Beginning of year		<u>865,122</u>
End of year		<u>\$ 1,748,874</u>

See notes to financial statements

SIERRA LAKES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended June 30, 2015

Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)		\$ 368,161
Adjustments to reconcile operating income (loss) to net cash provided to operating activities:		
Depreciation	\$ 205,549	
Changes in operating assets and liabilities:		
Assessment District receivable	6,394,297	
Trade and property tax income receivable	52,275	
Prepays	(435)	
Payables	(226,302)	
Prepaid revenue	<u>188,761</u>	
		<u>6,614,145</u>
Net cash provided by operating activities		<u>\$ 6,982,306</u>
Supplemental information:		
Cash paid for interest		<u>\$ 88,646</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

3. Cash:

At year-end the carrying amount of the District's deposits was \$1,748,874 and the bank balance was \$1,765,402. All of the bank balance was covered by Federal depository insurance.

At June 30, 2015, the District's total cash is as follows:

	Balance June 30, <u>2015</u>
<u>Cash:</u>	
Imprest cash	\$ 50
Checking account – unrestricted	1,622,743
Restricted with fiscal agent	<u>126,081</u>
Total cash	<u>\$1,748,874</u>

Restricted Cash:

The District had \$126,081 in cash as of June 30, 2015, 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.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

4. Capital Assets:

At June 30, 2015 changes in capital assets are as follows:

	<u>Balance</u> <u>6-30-14</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>6-30-15</u>
Water:				
Source of supply	\$ 49,687	\$ -	\$ -	\$ 49,687
Pumping plant	90,622	39,372	-	129,994
Water treatment	683,796	-	-	683,796
Transmission and distribution	3,976,205	-	-	3,976,205
General plant	222,369	1,026	-	223,395
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>6,582,190</u>	<u>40,398</u>	<u>-</u>	<u>6,622,588</u>
Sewer:				
Vehicles	260,783	-	-	260,783
Collection system	1,022,194	1,027	-	1,023,221
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>4,285,136</u>	<u>1,027</u>	<u>-</u>	<u>4,286,163</u>
Totals	<u>\$10,867,326</u>	<u>\$ 41,425</u>	<u>\$ -</u>	<u>\$10,908,751</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, 2015:

	<u>2014</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>2015</u>	<u>Current Portion</u>
DHS loan	\$ 766,937	\$ -	\$ 64,687	\$ 702,250	\$ 66,323
USDA/Co Bank	6,165,476	-	6,165,476	-	-
USDA/Revenue Bond	<u>5,222,000</u>	<u>-</u>	<u>126,300</u>	<u>5,095,700</u>	<u>129,700</u>
	<u>\$12,154,413</u>	<u>\$ -</u>	<u>\$6,356,463</u>	<u>\$5,797,950</u>	<u>\$ 196,023</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, 2015 the District maintained a required loan reserve of \$126,081.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. Long-term Debt (continued):

USDA/Co Bank

At June 30, 2014 the District had borrowed \$6,165,476 as part of a \$9,500,000 bond anticipation note. This note was issued pursuant to the issue of bonds by the Assessment District No. 2011-1. This loan bears interest at One-Month LIBOR plus 2 ¼% and was due on the date of receipts of proceeds from issue of the Assessment District's bonds (July, 2014). At June 30, 2015 this note payable was extinguished.

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, 2015 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 196,023	\$ 157,367	\$ 353,390
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
2021-2025	1,138,433	587,000	1,725,433
2026-2030	898,900	450,395	1,349,295
2031-2035	1,029,400	319,811	1,349,211
2036-2040	1,179,000	170,266	1,349,266
2041-2042	<u>518,100</u>	<u>21,467</u>	<u>539,567</u>
	<u>\$5,797,950</u>	<u>\$2,281,901</u>	<u>\$8,079,851</u>

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Restricted Net Position:

At June 30, 2015 District equity reserves consist of:

Reserve for debt service	\$ 126,081
Capital improvement reserves:	
Water	17,169
Sewer	<u>77,874</u>
	<u>\$ 221,124</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 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 required employer contribution rate for 2012/13 was 12.529%, for 2013/2014 was 13.487% and for 2014/15 was 13.672%. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's contributions for the years ended June 30, 2015, 2014 and 2013 were \$19,865, \$26,879 and \$24,144 respectively, which were equal to the required contributions each year.

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, 2012, six 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 \$1,264,556 unfunded at June 30, 2012.

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 57.3 percent of the annual covered payroll. To date the District has opted to proceed on a pay-as-you-go basis rather than fully fund the ARC.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Post Employment Benefits, continued:

Funding Policy, continued

The District's ARC was \$106,038 for the year ended June 30, 2015. This contribution includes the normal cost of \$56,569 and \$49,469 to amortize the UAAL.

The liability was determined using the Entry Age Normal Cost method. The actuarial assumptions included an interest rate of 3.00 percent in 2012.

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, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Annual required contribution (ARC)	\$ 106,038	\$ 106,038
Interest on net OPEB obligation	8,580	7,465
Adjustment to annual required contribution	<u>(10,863)</u>	<u>(9,451)</u>
Annual OPEB cost (expense)	103,755	104,052
Contributions made	<u>51,790</u>	<u>44,203</u>
(Increase) decrease in net asset	51,965	59,849
Net OPEB obligation (asset) -- beginning of year	<u>321,773</u>	<u>261,924</u>
Net OPEB obligation (asset) -- end of year	<u>\$ 373,738</u>	<u>\$ 321,773</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 2015 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. Under terms of the Interim Service Agreement dated April 26, 2003, DSPUD and the District have agreed that the two entities will jointly fund (DSPUD-56% District-44%) modifications to the plant.

SIERRA LAKES COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

10. Sewage Processing, continued:

However, the District has taken the position that there will be a final allocation of construction costs or more specifically, the District should not be liable for the costs of any excess capacity built into the plant.

11. Contingency:

A lawsuit was filed against the District in 2012 concerning land the District purchased under Serene Lakes. The suit concerns a claim of ownership of a portion of the lake parcel. This matter is set for trial in February, 2016.

In addition, several property owners have made claims to the District on a similar basis to the previous lawsuit.

Through 2015, legal costs of \$312,664 were paid on the preceding two matters. Litigation costs may increase significantly in the future.

12. Subsequent Events:

Management has evaluated subsequent events through September 4, 2015, the date these June 30, 2015 financial statements were available to be issued.

SUPPLEMENTAL DATA

SIERRA LAKES COUNTY WATER DISTRICT
PRINCIPAL OFFICIALS
June 30, 2015

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, 2015

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%

ASSESSMENT DISTRICT NO. 2011-1
STATEMENT OF NET POSITION – BOND FUND
June 30, 2015

ASSETS

Cash – checking	\$ 304,205
Future assessments receivable	<u>7,736,495</u>
	<u>\$8,040,700</u>

LIABILITIES AND NET POSITION

Payable to Sierra Lakes County Water District	\$ 31,830
Assessment bond payable	6,712,743
Net Position	<u>1,296,127</u>
	<u>\$8,040,700</u>

ASSESSMENT DISTRICT NO. 2011-1
BOND DEBT
June 30, 2015

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 ³/₄%, payable on March 2, 2015 and thereafter semiannually on March 2 and September 2 in each year.

Transactions for 2014/15 consist of:

Funds received	\$6,806,186
Balance of funds	<u>1,167,789</u>
	<u>\$7,973,975</u>

ASSESSMENT DISTRICT NO. 2011-1
ANALYSIS OF NET POSITION – BOND FUND
for the year ended June 30, 2015

Net Position – Bond Fund:

Activities for the year consist of:

Balance, June 30, 2014		\$3,100,490
Add, property owner assessments	\$230,073	
interest income	9	
interest expense recovery	<u>22,025</u>	
		252,107
Deduct, contributions to		
District (project costs)	1,941,757	
interest expense	110,937	
County administration fees	<u>3,776</u>	
		<u>(2,056,470)</u>
		<u>\$1,296,127</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, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2015.

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 4, 2015.

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 4, 2015



Robert W. Johnson
an accountancy corporation

09-10-15 03:44

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

September 4, 2015

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, 2015, and have issued our report thereon dated September 4, 2015. 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 14, 2015, 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 14, 2015.

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 2015. 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 4, 2015.

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

Robert W. Johnson, An Accountancy Corporation