

Clearlake Oaks County Water District

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2018



January 25, 2019

Clearlake Oaks County Water District

Clearlake Oaks, CA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Clearlake Oaks County Water District as of and for the year-ended June 30, 2018, 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

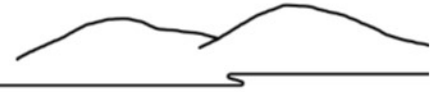
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 our 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 Clearlake Oaks County Water District as of June 30, 2018, and the respective



changes in financial position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented Management's Discussion and Analysis or budgetary comparison information that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clearlake Oaks County Water District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic 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 **January 25, 2019**, on our consideration of the Clearlake Oaks County Water 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Zach Pehling, CPA

Clearlake Oaks County Water District

**Audit Report
June 30, 2018**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Financial Statements	
Statement of Net Position.....	4
Statement of Activities.....	5
Statement of Revenues, Expenses and Change in Net Position	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8
Supplemental Information	
Schedule of Expenditures of Federal Awards.....	21
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with <i>the Uniform Guidance</i>	24
Schedule of Findings and Questioned Costs.....	26

Clearlake Oaks County Water District

Statement of Net Position June 30, 2018

ASSETS

Current Assets:

Cash	\$ 1,971,263
CRP Restricted Cash	675,162
Accounts Receivable	589,862
Deposits & Prepaid Expenses	15,474
	<hr/>
Total Current Assets	3,251,761

Capital Assets:

Land	299,770
Buildings, Improvements & Equipment	15,483,988
Construction in Progress	5,014,455
Less: Accumulated Depreciation	(8,736,056)
	<hr/>
Total Capital Assets	12,062,157

TOTAL ASSETS 15,313,918

DEFERRED OUTFLOW

GASB 68 Pension	<u>253,182</u>
-----------------	----------------

TOTAL DEFERRED OUTFLOW 253,182

TOTAL ASSETS AND DEFERRED OUTFLOWS 15,567,100

LIABILITIES

Current Liabilities:

Accounts Payable	1,052,122
Current Portion	56,220
Accrued Compensated Absences	54,922
	<hr/>
Total Current Liabilities	1,163,264

Long-term Liabilities:

Note Payable	2,754,780
Net Pension Liability	877,205
	<hr/>
Total Long-term Liabilities	3,631,985

TOTAL LIABILITIES 4,795,249

DEFERRED INFLOWS

USDA Construction Retainage	141,413
GASB 68 Pension	60,975
	<hr/>

TOTAL DEFERRED INFLOWS 202,388

TOTAL LIABILITIES AND DEFERRED INFLOWS 4,997,637

NET POSITION

Net Investment in Capital Assets	9,251,157
Unrestricted	1,318,306
	<hr/>
TOTAL NET POSITION	<u>\$ 10,569,463</u>

The accompanying notes are an integral part of these financial statements.

Clearlake Oaks County Water District
Statement of Activities
For the Year-Ended
June 30, 2018

	Expenses	Charges for Services	Capital Grants and Contributions	Excess of Revenues/(Expenses)
<u>Governmental Activities</u>				
Water	1,468,541	1,584,720	-	116,179
Sewer	1,569,745	2,959,768	2,085,234	3,475,257
Total Governmental Activities				3,591,436
 General Revenues:				
Tax Revenue				189,506
Interest & Investment Earnings				412
Total General Revenues				189,918
 NET CHANGE IN NET POSITION				3,781,354
 NET POSITION, BEGINNING OF YEAR				6,788,109
 NET POSITION, END OF YEAR				\$ 10,569,463

The accompanying notes are an integral part of these financial statements.

Clearlake Oaks County Water District

Statement of Revenues, Expenses & Change in Fund Net Position For the Year Ended June 30, 2018

<u>OPERATING REVENUE</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Charges for Service	\$ 1,249,049	\$ 1,090,773	\$ 2,339,822
CRP Charges	313,697	325,601	639,298
Connection Fee	-	-	-
Misc Revenue	21,974	13,309	35,283
Storm Disaster	-	1,530,085	1,530,085
TOTAL OPERATING REVENUE	1,584,720	2,959,768	4,544,488
 <u>OPERATING EXPENSES</u>			
Depreciation	256,159	146,056	402,215
Insurance	23,241	23,241	46,482
Repairs & Maintenance	63,770	72,528	136,298
Salaries and Employee Benefits	669,658	680,676	1,350,334
Services, Supplies and Refunds	274,662	326,720	601,382
Professional Fees	58,064	146,411	204,474
Storm Disaster Expense	-	31,025	31,025
Utilities	122,988	116,578	239,565
TOTAL OPERATING EXPENSES	1,468,541	1,543,234	3,011,775
OPERATING INCOME (Loss)	116,179	1,416,534	1,532,713
 <u>NON-OPERATING REVENUES/EXPENSES</u>			
Interest Income	206	206	412
Grants & Contributions	-	2,085,234	2,085,234
Property Taxes	94,735	94,771	189,506
Interest Expense	-	(26,511)	(26,511)
TOTAL NON-OPERATING REVENUES/EXPENSES	94,941	2,153,700	2,248,641
CHANGE IN NET POSITION	\$ 211,120	\$ 3,570,234	\$ 3,781,354

The accompanying notes are an integral part of these financial statements.

Clearlake Oaks County Water District
Statement of Cash Flows
For the Year-Ended
June 30, 2018

	Water	Sewer	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash Received from Charges for Service	\$ 1,475,566	\$ 1,329,194	\$ 2,804,760
Cash Received from Grants & Contributions	-	-	-
Cash Received from Other Income	21,974	1,543,394	1,565,368
Deduct: Cash paid for Operating Expenses	(1,220,335)	(1,405,130)	(2,625,465)
NET CASH FLOWS FROM OPERATING ACTIVITIES	277,205	1,467,458	1,744,663
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Interest Expense	-	(26,511)	(26,511)
Line of Credit	-	(466,000)	(466,000)
USDA Draws	-	2,831,000	2,831,000
Capital Contributions	-	2,085,234	2,085,234
Notes Payable	-	(20,000)	(20,000)
Purchase of Capital Assets	(266,097)	(4,361,804)	(4,627,901)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(266,097)	41,919	(224,178)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Property Tax Receipts	94,735	94,771	189,506
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	94,735	94,771	189,506
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest Receipts	206	206	412
NET CASH FLOWS FROM INVESTING ACTIVITIES	206	206	412
<u>NET INCREASE (DECREASE) IN CASH</u>	106,049	1,604,354	1,710,403
<u>CASH, BEGINNING OF YEAR</u>	1,807,728	(871,706)	936,022
<u>CASH, END OF YEAR</u>	\$ 1,913,777	\$ 732,648	\$ 2,646,425
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ 116,179	\$ 1,416,534	\$ 1,532,713
Adjustments to reconcile operating income to net cash provided by operating activities			
Add back depreciation	256,159	146,056	402,215
(Increase) Decrease in Operating Accounts Receivable	(87,180)	(87,180)	(174,360)
(Increase) Decrease in Prepaid	3,139	3,139	6,278
Increase (Decrease) in Accounts Payable	(37,943)	(37,943)	(75,886)
Increase (Decrease) in Pension Obligation	8,267	8,267	16,534
Increase (Decrease) in Current Liabilities	18,584	18,585	37,169
Net Cash Provided by Operating Activities	\$ 277,205	\$ 1,467,458	\$ 1,744,663

The accompanying notes to the financial statements are an integral part of this statement.

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clearlake Oaks County Water District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) 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.

A. Description of the Reporting Entity

The District was established in 1960, under the California State Government Code. The District currently provides water and sewer services throughout the un-incorporated area of the Clearlake Oaks Community in Lake County.

The District is a governed entity administered by a Board of Directors (Board) that acts as the authoritative and legislative body of the entity. The Board is comprised of five board members who are elected by voters living within the District's boundaries. Elections are held within the Board to appoint the President. The President's responsibilities are to preside at all meetings of the Board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission, or business organization; and exercise supervision over the business of the District, its officers, and its employees.

The accompanying general-purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

B. Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, revenues, expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

C. Government-Wide Financial Statements

The District Government-Wide Financial Statements include a Statement of Net Position and a Statement of Revenues, Expenses and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column. These statements are presented on an "economic resources" measurement focus and the accrual basis of

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Revenues, Expenses and Changes presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as operating revenues for the District are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Operating revenues include (1) charges paid by the recipients of services offered by the program and (2) grants and contributions that are restricted to meeting the operational or capital requirements if a particular program. Revenues that are not classified as program revenues, including taxes are presented instead as non-operating revenues.

Enterprise Funds – The enterprises funds are used to account for all the financial resources of the District. The enterprise net assets is available to the District for any purpose, provided it is expended or transferred according to the general laws of California and the bylaws of the District. The District maintains separate funds for Water, and Sewer.

Exchange and Non-Exchange Transactions of Revenues – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving value in return, include taxes and donations. Revenues are recognized when susceptible to accrual, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. The assessor of the County determines the assessed valuations of such property and the tax collector of the County collects the taxes. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Expenses - On an accrual basis of accounting, expenses are recognized at the time they are incurred.

D. Funds on Deposit, County and Bank

The District maintains its cash in a pool managed by the County Treasury. The County Treasury, in turn, invests its cash with the State of California in the local agency investment fund as well as other banking institutions. The District does not own any specific identifiable investments in the pool. The risk of loss is minimal.

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

As of, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	\$29,610	Unrated	NA
Cash in Local Bank	\$1,341,176	FDIC ins.	NA
Cash in LAIF	\$1,275,333	Unrated	NA
Petty Cash	\$307		
Total Cash	\$2,646,425		

Interest rate risk. - The District does not currently have a policy regarding interest rate risk.

Credit risk. - The District does not have a formal policy regarding credit risk

Custodial credit risk. -The District's investment in the State and County Treasurer's investment pools represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. Cash in local bank is covered by federal depository insurance.

Concentration of credit risk. - The District does not have a policy for concentration of credit risk.

E. Accounts Receivable

Accounts receivable are recorded at their gross value, where appropriate are reduced by the portion that is considered uncollectable. Accounts receivable consists primarily of service fees that have been billed but not paid as of year-end. Management believes its receivables to be fully collectable due to the ability to place a lien against property for unpaid receivables and, accordingly no allowance for doubtful accounts is necessary.

F. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items.

G. Fixed Assets

Capital assets, which include property, plant, and equipment, infrastructure assets and intangible are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received. The current capitalization threshold is \$5,000 for an individual item.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

H. Accounts Payable

On an accrual basis, expenses are recognized in the fiscal year in which the goods or services are received. Payables are liabilities of the District based upon current year charges for goods or services received but not paid in the current year.

I. Accrued Expenses

The District's employees accrue PTO after 90 days of employment at varying levels depending on years of service. Employees are allowed to accumulate up to 320 hours of PTO hours. Any accumulated PTO leave is paid-out to employees at their most recent rate of pay upon termination. The District records a liability for compensated absences based upon total PTO and CTO.

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

J. USDA Loan

Section 2.03. Principal; Interest; Maturity. The Certificate shall mature on June 1 in the years and in the principal amounts as shown below (each, a “Principal Component Payment”). Interest with respect thereto shall be computed at the Interest Rate of 2.00% per annum, calculated on the basis of a 365-day year. The annual Principal Component Payments are as follows:

<u>Maturity Date</u>	<u>Principal</u>	<u>Annual Interest Rate</u>	<u>Maturity Date</u>	<u>Principal</u>	<u>Annual Interest Rate</u>
06/01/2018	\$20,000	2.00%	06/01/2038	\$71,000	2.00%
06/01/2019	46,000	2.00%	06/01/2039	72,000	2.00%
06/01/2020	51,000	2.00%	06/01/2040	72,000	2.00%
06/01/2021	51,000	2.00%	06/01/2041	76,000	2.00%
06/01/2022	51,000	2.00%	06/01/2042	76,000	2.00%
06/01/2023	51,000	2.00%	06/01/2043	77,000	2.00%
06/01/2024	52,000	2.00%	06/01/2044	79,000	2.00%
06/01/2025	56,000	2.00%	06/01/2045	81,000	2.00%
06/01/2026	56,000	2.00%	06/01/2046	82,000	2.00%
06/01/2027	56,000	2.00%	06/01/2047	82,000	2.00%
06/01/2028	56,000	2.00%	06/01/2048	87,000	2.00%
06/01/2029	61,000	2.00%	06/01/2049	87,000	2.00%
06/01/2030	61,000	2.00%	06/01/2050	87,000	2.00%
06/01/2031	61,000	2.00%	06/01/2051	92,000	2.00%
06/01/2032	62,000	2.00%	06/01/2052	92,000	2.00%
06/01/2033	63,000	2.00%	06/01/2053	96,000	2.00%
06/01/2034	66,000	2.00%	06/01/2054	97,000	2.00%
06/01/2035	66,000	2.00%	06/01/2055	97,000	2.00%
06/01/2036	67,000	2.00%	06/01/2056	102,000	2.00%
06/01/2037	71,000	2.00%	06/01/2057	102,000	2.00%

Section 2.04. Interest. The interest evidenced and represented by the Certificate shall be payable on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing on December 1, 2017 and continuing to and including the Certificate Maturity Date or upon prepayment prior thereto, and shall evidence and represent the sum of the portions of the Installment Payments designated as interest components (each, an “Interest Component Payment”) coming due on the Interest Payment Dates during the interest period immediately preceding each of the Interest Payment Dates. Interest shall accrue with respect to the Original

K. Property Tax Revenue

The County, through the Auditor-Controller’s Office and the Treasury-Tax Collector, is responsible for collecting and distributing property taxes according to the alternative method of distributing known as the Teeter Plan. Under the Teeter Plan, the current year’s secured property tax levy is distributed to participating agencies with the County without consideration of whether the tax has been collected.

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

L. Net Position

The District’s net position represents the difference between its assets and liabilities in the statement of net position. Net position is reported as restricted when there are legal limitations imposed on their use by their source. Portions of the unreserved net position or fund balance may be designated to indicate tentative plans for financial resources utilization in a future period, such as for general contingencies, purchase of capital assets, or debt service. Such plans or intent are subject to change and may never be legally authorized or result in expenditures.

	Water	Sewer
Net Position 6/30/17	\$3,280,580	\$ 3,507,529
Net Change in Net Position	<u>211,120</u>	<u>3,570,234</u>
Net Position 6/30/18	<u>\$3,491,700</u>	<u>\$ 7,077,763</u>

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2018, the District contracted with private insurance agencies for liability, property, crime damage, and employee and director insurances.

NOTE 3: DEFINED BENEFIT PENSION PLAN

The District entered into the Public Employees Retirement System (PERS). Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by an agency of the State of California. Employees are members of the Public Employees' Retirement System.

Plan Description: The District contributes to the PERS, an agent multiple- employer public employee defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and district ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS' fiduciary net position have been determined on the

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

same basis as they are reported by PERS. 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.

Summary of Significant Accounting Policies

For Purposes of Measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this Purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used.

Validation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

General Information about the Pension Plan

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014 actuarial valuation report. This report is a publicly available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For Public agency cost-sharing plans covered by either the Miscellaneous, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by the employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees

Actuarial Methods and Assumptions Used to determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017 total pension liability. Both the June 30, 2016 total

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

pension liability and the June 30, 2017 total pension liability were based on the following actuarial methods and assumptions:

The total pension liability was determined by rolling forward the total pension liability determined in the June 30, 2016, actuarial accounting valuation to June 30, 2017. The June 30, 2017, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

Other significant actuarial assumptions used in the June 30, 2016, valuations were based on the results of the actuarial experience study for the period from 1997 to 2011.

Discount Rate

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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) 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.

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 geometric rates of return are net of administrative expenses.

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in your funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

The following table shows the Plan’s proportionate share of the risk pool collective net pension liability over the measurement period.

The first amortized amounts are recognized in pension expense for the year gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of participants (active, inactive and retired) in PERF C.

The EARSL for the 2013-14 measurement period is 3.8 years, which was obtained by dividing to total service years 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees are retirees have remaining service lifetimes equal to 0. Also, note that total future service is based on the members’ probability of decrementing due to an event other than receiving a cash refund.

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Ending Balances - Net Pension Liability & Deferred Outflows/Deferred Inflows of Resources Related to Pensions - 6/30/2018 Reporting Date:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	136,625	-
Differences between Expected and Actual Experience	-	15,886
Differences between Projected and Actual Investment Earnings	33,450	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	42,042
Change in Employer's Proportion	-	3,047
Pension Contributions Made Subsequent to Measurement Date	<u>83,108</u>	<u>-</u>
	<u>253,182</u>	<u>60,975</u>
Net Pension Liability as of 6/30/2018	<u>877,205</u>	

NOTE: Detailed breakdown of ending balances by Miscellaneous vs Safety can be found in the [Jul 2017-Jun 2018 JE Flow](#) worksheet

Clearlake Oaks County Water District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Pension Expense as of June 30, 2018 126,376			
At 6/30/2018, proportionate shares of Net Pension Liability/(Asset) by plan(s):			
	Proportionate Share of Net Pension Liability/(Asset)		
Miscellaneous	877,205		
Safety	-		
Total	877,205		
Proportionate share of the Net Pension Liability/(Asset) for the Plan as of 6/30/2017 and 6/30/2018:			
	Miscellaneous	Safety	Total
Proportion - June 30, 2017	0.02090%	0.00000%	0.00839%
Proportion - June 30, 2018	0.02225%	0.00000%	0.00885%
Change - Increase/(Decrease)	0.00135%	0.00000%	0.00045%
Note: Due to the nature of calculating proportionate share of the Net Pension Liability/(asset), total proportion for all employer plans will not equal the sum of the miscellaneous proportion % and the safety proportion %			
Other deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:			
	Miscellaneous	Safety	Total
Fiscal Year Ending June 30:			
2019	\$ 3,598	\$ -	\$ 3,598
2020	79,836	-	79,836
2021	45,525	-	45,525
2022	(19,860)	-	(19,860)
2023	-	-	-
Thereafter	-	-	-
	109,099	-	\$ 109,099
Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate:			
	Discount Rate -1%	Current Discount Rate	Discount Rate +1%
	6.15%	7.15%	8.15%
Employer's Net Pension Liability/(Asset) - Miscellaneous	1,364,735	877,205	473,424
Employer's Net Pension Liability/(Asset) - Safety	-	-	-
Employer's Net Pension Liability/(Asset) - Total	1,364,735	877,205	473,424

NOTE 3: USE OF RESTRICTED/UNRESTRICTED NET POSITION

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

NOTE 4: COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 JOINT POWERS INSURANCE AUTHORITY

The District participates in a joint venture under a joint agreement (JPA) with the Association of California Water Agencies (ACWA). The relationship between the District and the JPA is such that is not a component unit of the District and the JPA is not a component unit of the District for financial reporting purposes.

The JPA'S purpose is to jointly fund and develop programs to provide comprehensive and economical funding of property, workers compensation and employers liability coverage's for bodily injury by accident or by disease, including resulting from death, arising out of and in the course of an employee's employment with the District. This program is provided through collective self-insurance; the purchase of insurance benefit's; or a combination thereof. Copies of ACWA annual financial reports may be obtained from their executive office at 25620 Birdcage Street, Suite 200, Citrus Heights, CA.

NOTE 6: CONTIGENCIES

As of June 30, 2018, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 7: DATE OF MANAGEMENT'S REVIEW

Subsequent events have been evaluated through **January 25, 2019**, which is the date the financial statements were available to be issued. The waste water treatment plant improvement project funded through USDA was completed and November 20, 2018.

Clearlake Oaks County Water District

Supplemental Information

June 30, 2018

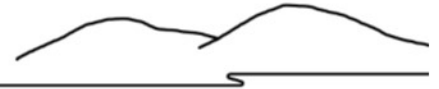
Clearlake Oaks County Water District

**Schedule of Expenditures of Federal Awards
For the Year-Ended June 30, 2018**

<u>Federal Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
USDA			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 3,001,809
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,001,809

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Harbor View Mutual Water Company and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.



January 25, 2019

Board of Directors
Clearlake Oaks County Water District

Clearlake Oaks, CA

INDEPENDENT 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

We have audited the financial statements of Clearlake Oaks County Water District as of and for the year ended June 30, 2018, and have issued our report thereon dated **January 25, 2019**. 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.

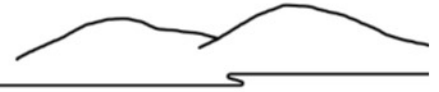
Internal Control Over Financial Reporting

Management of Clearlake Oaks County Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Clearlake Oaks County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clearlake Oaks County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 controls such 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 in internal control is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



**INDEPENDENT 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**
(continued)

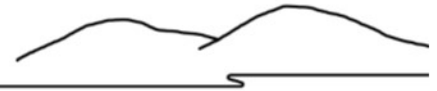
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clearlake Oaks County Water District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Zach Pehling', with a long horizontal stroke at the end.

Zach Pehling, CPA



**INDEPENDENT REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
UNIFORM GUIDANCE**

Board of Directors
Clearlake Oaks County Water District

Report on Compliance for Each Major Federal Program

We have audited Clearlake Oaks County Water District's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Clearlake Oaks County Water District's major federal programs for the year ended June 30, 2018. Clearlake Oaks County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

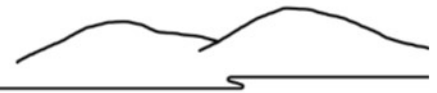
Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Clearlake Oaks County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clearlake Oaks County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Clearlake Oaks County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Clearlake Oaks County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.



Report on Internal Control over Compliance

Management of Clearlake Oaks County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Clearlake Oaks County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clearlake Oaks County Water District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.²

Zach Pehling, CPA

January 25, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (UNIFORM GUIDANCE)

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unmodified*.

Internal control over financial reporting:

Material weaknesses identified?	___ Yes	_x_ No
Significant deficiencies identified?	___ Yes	_x_ None Reported
Noncompliance material to financial statements noted?	___ Yes	_x_ No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	___ Yes	_x_ No
Significant deficiencies identified?	___ Yes	_x_ None reported
Type of auditor's report issued on compliance for major federal programs: <i>unmodified</i> ,		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	_x_ No
Identification of major federal programs:		
CFDA Number(s)	10.760 Water and Waste Disposal Systems for Rural Communities	
Dollar threshold used to distinguish between type A and type B programs:	\$ <u>750,000</u>	
Auditee qualified as a low-risk auditee?	___ Yes	_x_ No

Section II: Financial Statement Findings

None noted

Amount of Questioned Cost, How Computed and Prevalence

None noted

Section III: Federal Awards Findings

None noted

Internal Control - Significant Deficiencies that are not Material Weaknesses

None noted

Material Non-Compliance with Laws and Regulations

None noted

Non-Material Non-Compliance with Laws and Regulations

None noted