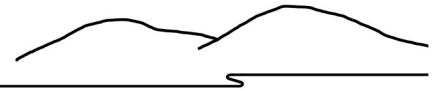


Clearlake Oaks County Water District

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2017



June 1, 2018

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, 2017, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

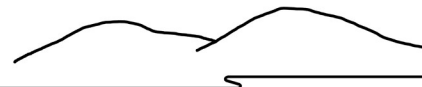
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and 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, 2017, 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.

A handwritten signature in black ink, appearing to read 'Zachary Pehling'. The signature is written in a cursive, flowing style.

Pehling & Pehling, CPA’s
An Accountancy Corporation

Clearlake Oaks County Water District

**Audit Report
June 30, 2017**

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Clearlake Oaks County Water District

Statement of Net Position June 30, 2017

ASSETS

Current Assets:

Cash	\$	569,111
CRP Restricted Cash		366,911
Accounts Receivable		104,748
Deposits & Prepaid Expenses		21,752
		<hr/>
Total Current Assets		1,062,522

Capital Assets:

Land		299,770
Buildings, Improvements & Equipment		13,611,682
Construction in Progress		1,582,413
Less: Accumulated Depreciation		(8,409,030)
		<hr/>
Total Capital Assets		7,084,835

TOTAL ASSETS 8,147,357

DEFERRED OUTFLOW

GASB 68 Pension		<u>175,212</u>
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TOTAL DEFERRED OUTFLOW 175,212

TOTAL ASSETS AND DEFERRED OUTFLOWS 8,322,569

LIABILITIES

Current Liabilities:

Accounts Payable		181,772
Current Portion		-
Accrued Compensated Absences		43,011
		<hr/>
Total Current Liabilities		224,783

Long-term Liabilities:

Note Payable		466,000
Net Pension Liability		726,113
		<hr/>
Total Long-term Liabilities		1,192,113

TOTAL LIABILITIES 1,416,896

DEFERRED INFLOWS

GASB 68 Pension		<u>117,564</u>
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TOTAL DEFERRED INFLOWS 117,564

TOTAL LIABILITIES AND DEFERRED INFLOWS 1,534,460

NET POSITION

Net Investment in Capital Assets		6,618,835
Unrestricted		169,274
		<hr/>
TOTAL NET POSITION		<u>\$ 6,788,109</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, 2017

	Operating Revenues			
Expenses	Charges for Services	Grants and Contributions	Excess of Revenues/(Expenses)	
<u>Governmental Activities</u>				
Water	851,254	1,362,369	263,336	774,451
Sewer	1,803,878	1,537,133	143,785	(122,960)
Admin	770,904	-	-	(770,904)
Total Governmental Activities				(119,413)
General Revenues:				
Tax Revenue				205,389
Interest & Investment Earnings				2,206
Total General Revenues				207,595
NET CHANGE IN NET POSITION				88,182
NET POSITION, BEGINNING OF YEAR				6,699,927
NET POSITION, END OF YEAR				\$ 6,788,109

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, 2017

<u>OPERATING REVENUE</u>	<u>Water</u>	<u>Sewer</u>	<u>Admin</u>	<u>Total</u>
Charges for Service	\$ 1,059,808	\$ 919,809	\$ -	\$ 1,979,617
CRP Charges	265,466	273,385	-	538,851
Connection Fee	9,028	9,592	-	18,620
Misc Revenue	28,067	62	-	28,129
Storm Disaster	-	334,285	-	334,285
Grants & Contributions	263,336	143,785	-	407,121
TOTAL OPERATING REVENUE	1,625,705	1,680,918	-	3,306,623
<u>OPERATING EXPENSES</u>				
Depreciation	184,487	147,218	-	331,705
Insurance	32,277	32,277	-	64,554
Repairs & Maintenance	77,150	64,040	4,309	145,499
Salaries and Employee Benefits	247,872	301,016	586,207	1,135,095
Services, Supplies and Refunds	194,023	197,260	125,456	516,739
Professional Fees	10,533	17,404	50,971	78,908
Storm Disaster Expense	-	979,374	-	979,374
Utilities	100,271	65,289	3,961	169,521
TOTAL OPERATING EXPENSES	846,613	1,803,878	770,904	3,421,395
OPERATING INCOME (Loss)	779,092	(122,960)	(770,904)	(114,772)
<u>NON-OPERATING REVENUES/EXPENSES</u>				
Interest Income	-	-	2,206	2,206
Property Taxes	110,378	95,011	-	205,389
Interest Expense	(4,641)	-	-	(4,641)
TOTAL NON-OPERATING REVENUES/EXPENSES	105,737	95,011	2,206	202,954
CHANGE IN NET POSITION	\$ 884,829	\$ (27,949)	\$ (768,698)	\$ 88,182

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, 2017

	Water	Sewer	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash Received from Charges for Service	\$ 1,323,708	\$ 1,178,923	\$ 2,502,631
Cash Received from Grants & Contributions	263,336	143,785	407,121
Cash Received from Other Income	28,067	334,347	362,414
Deduct: Cash paid for Operating Expenses	<u>(1,045,956)</u>	<u>(1,921,305)</u>	<u>(2,967,261)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>569,155</u>	<u>(264,250)</u>	<u>304,905</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Interest Expense	(4,641)	-	(4,641)
Line of Credit	446,000	-	446,000
Notes Payable	(27,127)	(27,127)	(27,127)
Purchase of Capital Assets	<u>(226,893)</u>	<u>(658,513)</u>	<u>(885,406)</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>187,339</u>	<u>(685,640)</u>	<u>(498,301)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Property Tax Receipts	<u>110,378</u>	<u>95,011</u>	<u>205,389</u>
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>110,378</u>	<u>95,011</u>	<u>205,389</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest Receipts	<u>1,103</u>	<u>1,103</u>	<u>2,206</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>1,103</u>	<u>1,103</u>	<u>2,206</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	<u>867,975</u>	<u>(853,776)</u>	<u>14,199</u>
<u>CASH, BEGINNING OF YEAR</u>	<u>939,753</u>	<u>(17,930)</u>	<u>921,823</u>
<u>CASH, END OF YEAR</u>	<u>\$ 1,807,728</u>	<u>\$ (871,706)</u>	<u>\$ 936,022</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	<u>\$ 393,640</u>	<u>\$ (508,412)</u>	<u>\$ (114,772)</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Add back depreciation	184,487	147,218	331,705
(Increase) Decrease in Operating Accounts Receivable	(13,268)	(26,537)	(39,805)
(Increase) Decrease in Prepaid	1,337	1,337	2,674
Increase (Decrease) in Accounts Payable	-	119,185	119,185
Increase (Decrease) in Pension Obligation	3,704	3,704	7,408
Increase (Decrease) in Current Liabilities	<u>(745)</u>	<u>(745)</u>	<u>(1,490)</u>
Net Cash Provided by Operating Activities	<u>\$ 569,155</u>	<u>\$ (264,250)</u>	<u>\$ 304,905</u>

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, 2017

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, 2017

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, 2017**

As of June 30, 2017, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	\$27,097	Unrated	NA
Cash in Local Bank	\$425,930	FDIC ins.	NA
Cash in LAIF	\$482,694	Unrated	NA
Petty Cash	\$300		
Total Cash	\$936,022		

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 \$2,500 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, 2017**

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.

J. Line of Credit

The District took out a line of credit from West America Bank to assist it in paying for engineering costs in anticipation of a future loan from USDA. The District was approved for a loan amount of \$500,000. As of the audit date the District had drawn on the Line of Credit in the amount of \$466,000. Beginning November 30, 2015 the District will begin making monthly interest-only payments for all accrued interest charges. The interest rate is variable with a rate of .750% over the index. At the time of the audit that rate is currently 6%.

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.

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 assets 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 6/30/16	\$2,780,100	\$ 3,919,827
Net Change in Net Position	<u>500,480</u>	<u>(412,298)</u>
Net Position 6/30/17	<u>\$3,280,580</u>	<u>\$ 3,507,529</u>

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 2017, 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, and death benefits 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 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.

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

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, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. Both the June 30, 2015 total pension liability and the June 30, 2016 total pension liability were based on the following actuarial methods and assumptions:

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table ¹	Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹The 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 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report call the "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate was resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multi-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for there own financial reporting purposes.

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CalPERS is Scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations though at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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.

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.

Asset Class	New Strategic Allocation	Real Return Years 1-10¹	Real Return Years 11+²
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
¹ An expected inflation of 2.5% used for this period			
² An expected inflation of 3.0% used for this period			

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

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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.

Allocation of Net Pension Liability and Pension Expense to Individual Plans

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations if individual plan amounts as of the valuation date are used where not available.

- (1) In determining a cost-sharing plans proportionate share, total amounts of liabilities and assets are first calculated for the Miscellaneous Risk Pool (risk pool) as a whole on the valuation date (2013). The risk pool's fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net position liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2014). Risk Pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: for purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).

- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4).

The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

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**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Please refer to the CalPERS Public Agency Cost-Sharing Allocation Methodology Report that can be obtained at CalPERS' website under the GASB 68 section, and see Appendix D of this report for the calculation of the plan's proportionate share of the TPL and FNP.

The plan's proportion of aggregate employer contributions is equal to the plan's proportion of FNP calculated in (4).

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, 2017

At 6/30/2017, proportionate shares of net pension liability by plan(s):			
		Proportionate Share of Net Pension Liability	
Miscellaneous		726,113	
Safety		-	
Total		726,113	
At 6/30/2016, proportionate share of the net pension liability for the Plan as of 6/30/2015 and 6/30/2016:			
		Miscellaneous	Safety
Proportion - June 30, 2015		0.01895%	0.00000%
Proportion - June 30, 2016		0.02090%	0.02090%
Change - Increase/(Decrease)		0.00195%	0.00000%
Total		0.01895%	0.02090%
Note: Due to the nature of calculating proportionate share of the net pension liability, total proportion for all employer plans will not equal the sum of the miscellaneous proportion % and the safety proportion %			
Pension Expense/(Credit) as of 6/30/2017	107,530		
6/30/2017 reported deferred outflows of resources and deferred inflows of resources related to pensions:			
		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience		1,161	-
Changes of Assumptions		-	14,253
Differences between Projected and Actual Investment Earnings		74,180	-
Differences between Employer's Contributions and Proportionate Share of Contributions		-	69,218
Change in Employer's Proportion		28,286	34,093
Pension Contributions Made Subsequent to Measurement Date		71,585	-
		175,212	117,564
Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:			
		Miscellaneous	Safety
Fiscal Year Ending June 30:			
2018	\$ (30,794)	\$ -	\$ (30,794)
2019	(25,435)	-	(25,435)
2020	23,079	-	23,079
2021	19,213	-	19,213
2022	-	-	-
Thereafter	-	-	-
	(13,937)	-	\$ (13,937)
Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate:			
		Discount Rate -1% 6.65%	Current Discount Rate 7.65%
Employer's Net Pension Liability/(Asset) - Miscellaneous		1,159,912	726,113
Employer's Net Pension Liability/(Asset) - Safety		-	-
Total		1,159,912	726,113
		6.65%	8.65%
		367,600	-
		367,600	367,600

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

Clearlake Oaks County Water District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

consistent with current year's presentation.

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, 2017, 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 June 1, 2018, which is the date the financial statements were available to be issued. As of that date the original loan from Westamerica had been paid in full. Additionally, a second line of credit was opened for sewer engineering in the amount of \$500,000 of which \$433,126 had been drawn.