

**CLEARLAKE OAKS COUNTY WATER DISTRICT  
AGENDA, CALL AND NOTICE  
SPECIAL MEETING OF THE BOARD OF DIRECTORS**

Clearlake Oaks County Water District Administration Building  
12952 E. Hwy. 20 Clearlake Oaks, CA 95423 (707) 998-3322

**February 8, 2017**

This meeting will be conducted by Roberts Rule of Order.

Where appropriate or deemed necessary, the Board may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the above address.

The public may address the Board concerning an agenda item either before or during the Board's consideration of that agenda item. The President will call for comments at the appropriate time. Comments will be subject to reasonable time limits of three minutes.

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Clearlake Oaks County Water District Secretary to the Board at 707-998-3322. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

**Public comment on non-agenda items**

This is the opportunity for the public to comment on non-agenda items within the Board's jurisdiction. Comments are limited to three (3) minutes

**AGENDA**

Legal Counsel, Scott Nave will be on speaker phone

**Call to Order – 12 p.m.**

**Pledge of Allegiance**

**Roll Call**

- Mrs. Margaret Medeiros, President    Mr. Karl Hosier, Vice President    Mrs. Judy Heeszal, Director
- Ms. Dena Barron, Director,    Mr. Richard Kuehn, Director
  
- Mr. Alan Gardner – General Manager    Mr. Jason Mitchell – Operations Manager
- Mrs. Dianna Mann - Secretary to the Board

**Old Business**

- a. Review and approval of 2015 – 2016 Financial Audit

**Action Taken:** \_\_\_\_\_

**Adjournment**

**Time:** \_\_\_\_\_

**CLEARLAKE OAKS COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

**AUDIT REPORT**

**June 30, 2016**



**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, 2016, 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, 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.

Pehling & Pehling, CPA's  
An Accountancy Corporation

CLEARLAKE OAKS COUNTY WATER DISTRICT

**Audit Report  
June 30, 2016**

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**CLEARLAKE OAKS COUNTY WATER DISTRICT**

**Statement of Net Position  
June 30, 2016**

	Enterprise Funds		Totals
	Water	Sewer	
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash	\$ 745,710	\$ (213,973)	\$ 531,738
CRP Restricted Cash	194,043	196,043	390,086
Pre-paid Expenses	11,545	11,544	23,089
Accounts Receivable	36,662	28,282	64,943
Total Current Assets	987,960	21,896	1,009,856
<b><u>Fixed Assets:</u></b>			
CIP	112,974	662,131	775,105
Land	262,717	13,753	276,470
Buildings and Improvements	4,370,981	4,104,657	8,475,638
Equipment	1,806,728	3,275,856	5,082,585
Less: Accumulated Depreciation	(4,357,299)	(3,720,026)	(8,077,325)
Total Fixed Assets	2,196,101	4,336,371	6,532,471
<b>TOTAL ASSETS</b>	<b>3,184,061</b>	<b>4,358,266</b>	<b>7,542,328</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Notes Payable - Current Portion	27,127	27,127	54,254
Accounts Payable	24,054	38,533	62,587
Accrued Liabilities	22,251	22,251	44,501
Total Current Liabilities	73,433	87,910	161,343
<b><u>Long-Term Liabilities:</u></b>			
Net Pension Liability	240,613	240,613	481,226
Notes Payable	0	20,000	20,000
Total Long-Term Liabilities	240,613	260,613	501,226
<b>TOTAL LIABILITIES</b>	<b>314,046</b>	<b>348,523</b>	<b>662,569</b>
<b><u>DEFERRED INFLOWS</u></b>			
Difference Inflows Pension	89,916	89,916	179,831
<b>TOTAL DEFERRED INFLOWS</b>	<b>89,916</b>	<b>89,916</b>	<b>179,831</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>403,962</b>	<b>438,439</b>	<b>842,400</b>
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	2,168,974	4,289,244	6,458,218
Restricted	194,043	196,043	390,086
Unrestricted	417,083	(565,460)	(148,377)
<b>TOTAL NET POSITION</b>	<b>\$ 2,779,100</b>	<b>\$ 3,919,827</b>	<b>\$ 6,698,927</b>

The accompanying notes are an integral part of these financial statements

CLEARLAKE OAKS COUNTY WATER DISTRICT

**Statement of Revenues, Expenses and Change in Net Position  
For the Year Ended  
June 30, 2016**

	Enterprise Funds		Totals
	Water	Sewer	
<b><u>OPERATING REVENUES</u></b>			
Charges for Services	\$ 1,244,522	\$ 1,077,389	\$ 2,321,911
Total Operating Revenues	<u>1,244,522</u>	<u>1,077,389</u>	<u>2,321,911</u>
<b><u>OPERATING EXPENSES</u></b>			
Water Treatment	778,956	-	778,956
Water Transmission & Distribution	141,418	-	141,418
Sewer Collection	-	141,418	141,418
Sewer Treatment & Disposal	-	694,058	694,058
Administrative	266,798	266,798	533,596
Depreciation	189,838	140,317	330,155
<b>TOTAL OPERATING EXPENSES</b>	<u>1,377,011</u>	<u>1,242,591</u>	<u>2,619,602</u>
<b>OPERATING INCOME</b>	<u>(132,488)</u>	<u>(165,202)</u>	<u>(297,690)</u>
<b><u>NON-OPERATING REVENUES/EXPENSES</u></b>			
Grants	159,502	263,090	422,592
Interest Expense	(1,738)	(1,738)	(3,476)
Other Income/Expenses	905	904	1,810
Taxes and Intergovernmental	96,258	96,879	193,137
Total Non-Operating Revenues/Expenses	<u>254,928</u>	<u>359,136</u>	<u>614,063</u>
<b><u>NET CHANGE IN NET POSITION</u></b>	<u>122,439</u>	<u>193,934</u>	<u>316,373</u>
<b><u>NET POSITION, BEGINNING OF YEAR</u></b>	<u>2,657,661</u>	<u>3,725,893</u>	<u>6,383,554</u>
<b><u>NET POSITION, END OF YEAR</u></b>	<u>\$ 2,780,100</u>	<u>\$ 3,919,827</u>	<u>\$ 6,699,927</u>

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, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Cash Received from Charges for Service	\$ 1,305,549	\$ 1,128,228	\$ 2,433,777
Deduct: Cash paid for Operating Expenses	(1,221,720)	(1,114,287)	(2,336,007)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>83,829</u>	<u>13,941</u>	<u>97,770</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Cash Received from Other	159,502	263,090	422,592
Drawdown on LOC	-	20,000	20,000
Interest Expense	(1,738)	(1,738)	(3,476)
Payment on Principle on Notes Payable	(37,022)	(57,855)	(94,877)
Purchase of Capital Assets	(124,754)	(435,469)	(560,223)
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(4,012)</u>	<u>(211,972)</u>	<u>(215,983)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>			
Property Tax Receipts	96,258	96,879	193,137
<b>NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	<u>96,258</u>	<u>96,879</u>	<u>193,137</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>NET INCREASE (DECREASE) IN CASH</u></b>	<u>176,075</u>	<u>(101,152)</u>	<u>74,924</u>
<b><u>CASH, BEGINNING OF YEAR</u></b>	<u>763,678</u>	<u>83,222</u>	<u>846,900</u>
<b><u>CASH, END OF YEAR</u></b>	<u>\$ 939,753</u>	<u>\$ (17,930)</u>	<u>\$ 921,824</u>
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>			
Operating Income (Loss)	\$ (132,488)	\$ (165,202)	\$ (297,690)
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>			
Add back depreciation	189,838	140,317	330,155
Pension Expense	(265)	545	280
(Increase) Decrease in Accounts Receivable	61,007	50,839	111,846
(Increase) Decrease in Prepaid	134	134	268
Increase (Decrease) in Accounts Payable	(32,097)	(10,392)	(42,489)
Increase (Decrease) in Accrued Liabilities	(2,300)	(2,300)	(4,600)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 83,829</u>	<u>\$ 13,941</u>	<u>\$ 97,770</u>

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

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
June 30, 2016

**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 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

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
June 30, 2016

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.

E. 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**  
 June 30, 2016

As of June 30, 2016, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	21,680	Unrated	NA
Cash in Local Bank	478,767	FDIC ins.	NA
Cash in LAIF	346,453	Unrated	NA
Total Cash	\$846,900		

*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.

F. 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.

G. Prepaid Expenses

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

H. 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**  
 June 30, 2016

I. 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.

J. 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.

K. Long-Term Debt

All long-term liabilities to be repaid from the governmental resources are reported as liabilities in the government-wide statements.

Clearlake Oaks County Water District has an obligation to Kansas State Bank bearing interest at 4.40%.

The loan is collateralized by Vacon Truck.

Principal and interest payments for the years following June 30, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	54,973	959
	54,973	959

L. 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 \$20,000. 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 5%.

M. 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

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
June 30, 2016

distributed to participating agencies with the County without consideration of whether the tax has been collected.

N. 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.

O. 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 2016, 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.

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
June 30, 2016

**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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

**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. For the measurement period ended June 30, 2015 (the measurement date, the average employer's contribution rate is 8.003 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Actuarial Methods and Assumptions Used to determine Total Pension Liability

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
June 30, 2016

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014 total pension liability and the June 30, 2015 total pension liability were 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	7.50%
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 <sup>1</sup>	Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies. 2.75% thereafter

<sup>1</sup> 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 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

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
 June 30, 2016

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 their own financial reporting purposes.

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 through 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.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1-10<sup>1</sup></b>	<b>Real Return Years 11+<sup>2</sup></b>
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)

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
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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.

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.

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
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(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

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.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability/(Asset) (c)=(a)-(b)
Balance at: 6/30/2014 (VD)	\$ 3,084,740	\$ 2,603,514	\$ 481,226
Balance at: 6/30/2015 (MD)	\$ 2,973,563	\$ 2,512,934	\$ 460,629
Net Changes during 2014-15	\$ (111,177)	\$ (90,580)	\$ (20,597)

**Subsequent Events**

There were no subsequent events that would materially affect the results presented in this disclosure.

**Recognition of Gains and Losses**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

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

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
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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 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 and 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.

**Pension Expense and Deferred Outflows and Deferred Inflows**

Measurement Date	Initial Changes of Assumptions	Remaining Period (Years)	Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Changes in Assumptions (Measurement Dates)					
			2015 (FY 2016)	2016 (FY 2017)	2017 (FY 2018)	2018 (FY 2019)	2019 (FY 2020)	2020 (FY 2021)
2014								
2015	(34,085.31)	3.80	(8,969.82)	(8,969.82)	(8,969.82)	(7,175.85)		
Net Increase (Decrease in Pension Expense)			(8,969.82)	(8,969.82)	(8,969.82)	(7,175.85)		

  

Measurement Date	Initial Differences between Expected and Actual Experience	Remaining Period (Years)	Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Changes in Difference between Expected and Actual Experience (Measurement Dates)					
			2015 (FY 2016)	2016 (FY 2017)	2017 (FY 2018)	2018 (FY 2019)	2019 (FY 2020)	2020 (FY 2021)
2014								
2015	3,602.74	3.80	948.09	948.09	948.09	758.47		
Net Increase (Decrease in Pension Expense)			948.09	948.09	948.09	758.47		

  

Measurement Date	Initial Differences between Projected and Actual Earnings on Investments	Remaining Period (Years)	Increase (Decrease) in Pension Expense Arising from the Recognition of the Differences between Projected and Actual Earnings on Investments (Measurement Dates)					
			2015 (FY 2016)	2016 (FY 2017)	2017 (FY 2018)	2018 (FY 2019)	2019 (FY 2020)	2020 (FY 2021)
2014	(178,832.00)	4.00	(44,708.00)	(44,708.00)	(44,708.00)	(44,708.00)		
2015	151,916.63	5.00	(0.383.33)	(0.383.33)	(0.383.33)	(0.383.33)	(0.383.33)	

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
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Net Increase (Decrease in Pension Expense)	(14,324.67)	(14,324.67)	(14,324.67)	(14,324.67)	30,383.33
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Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Changes in Proportions  
(Measurement Dates)

Measurement Date	Change in Proportions	Remaining Period (Years)	2015 (FY 2016)					2016 (FY 2017)		2017 (FY 2018)		2018 (FY 2019)		2019 (FY 2020)		2020 (FY 2021)	
2014	(999.00)	2.80	(356,791)	(356,791)	(285,131)												
2015	(96,807.23)	3.80	(25,475.59)	(25,475.59)	(25,475.59)	(20,380.47)											
Net Increase (Decrease in Pension Expense)			(25,832.37)	(25,832.37)	(25,761.01)	(20,380.47)											

Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Differences in Actual Contributions and Proportionate Share of Contributions (Measurement Dates)

Measurement Date	Difference in Actual Contribution and Proportionate Share of Contrib.	Remaining Period (Years)	2015 (FY 2016)					2016 (FY 2017)		2017 (FY 2018)		2018 (FY 2019)		2019 (FY 2020)		2020 (FY 2021)	
2014	27,969.00	2.80	9,988.93	9,988.93	7,991.14												
2015	(28,385.14)	3.80	(7,469.77)	(7,469.77)	(7,469.77)	(5,975.82)											
Net Increase (Decrease in Pension Expense)			2,519.16	2,519.16	521.37	(5,975.82)											

Amortization of Deferred Inflows/Outflows for Notes to FS	(45,659.67)	(47,586.05)	(47,098.35)	30,383.33
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**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.

**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

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
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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, 2016, 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 October 24, 2016, which is the date the financial statements were available to be issued.

**CLEARLAKE OAKS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
June 30, 2016

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CLEARLAKE OAKS COUNTY WATER DISTRICT

Supplemental Information

June 30, 2016



October 24, 2016

Board of Directors  
Clearlake Oaks County Water District  
PO Box 709  
Clearlake Oaks, CA 95423

**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, 2016, and have issued our report thereon dated October 24, 2016. 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.

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.

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

**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

**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 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.

Pehling & Pehling CPAs  
An Accountancy Corporation  
October 24, 2016