LAMONT PUBLIC UTILITY DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016

LAMONT PUBLIC UTILITY DISTRICT
ORGANIZATION DATA
JUNE 30, 2017

ELECTED OFFICERS

Jose G. Cruz, President

Leticia Prado, Vice-President

Roberto Gonzalez, Director

Maria Hernandez, Director

Miguel Sanchez, Director

ADMINISTRATION

Scott Taylor, General Manager / Board Secretary

Wendy Swope, Finance Officer

LAMONT PUBLIC UTILITY DISTRICT
JUNE 30, 2017 AND 2016

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BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lamont Public Utility District
Lamont, California

Report on the Financial Statements

We have audited the accompanying balance sheets of Lamont Public Utility District (the District) as of June 30, 2017 and 2016; the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended; and the related notes to the financial statements, which collectively compromise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017 and 2016, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, and schedule of contributions 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the District's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
January 18, 2018

As management of the Lamont Public Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the District's financial statements, which will follow this section.

Using This Annual Report

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the District. The basic financial statements consist of a series of financial statements. The balance sheets; the statements of revenues, expenses, and changes in net position; and the statements of cash flows provide information about the activities of the District. The basic financial statements also include various footnote disclosures, which further describe District activities.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, as well as its profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights, Fiscal Year Ended June 30, 2017

- The largest portion of the District's assets is its investment in capital assets. The District uses these assets to provide service and, consequently, these assets are not available to liquidate liabilities or other spending.

- Current assets as of June 30, 2017, include $5,810,169 in cash and investments, maintained in commercial banks and CalTrust.

- Operating revenues for the year ended June 30, 2017, consist principally of water and sewer service charges. Operating revenues decreased slightly, mainly due to decreases in capacity and connection fees, as well as other revenues.

Condensed Financial Statements

	2017	2016	2015	2017 vs 2016 Variance
Current and other assets	$ 6,074,037	$ 8,531,822	$ 9,653,194	$ (2,457,785)
Capital assets, net	22,557,611	18,856,948	17,711,143	3,700,663
Deferred outflows of resources	105,267	84,854	94,488	20,413
Total assets and deferred outflows of resources	$ 28,736,915	$ 27,473,624	$ 27,458,825	$ 1,263,291
Current liabilities	$ 619,327	$ 963,630	$ 833,416	$ (344,303)
Long-term liabilities	7,430,462	5,658,529	5,905,801	1,771,933
Deferred inflows of resources	11,225	11,497	35,226	(272)
Total liabilities and deferred inflows of resources	8,061,014	6,633,656	6,774,443	1,427,358
Net position	20,675,901	20,839,968	20,684,382	(164,067)
Total liabilities, deferred inflows of resources, and net position	$ 28,736,915	$ 27,473,624	$ 27,458,825	$ 1,263,291

	2017	2016	2015	2017 vs 2016 Variance
Operating revenues	$ 2,783,671	$ 3,019,116	$ 2,813,194	$ (235,445)
Operating expenses	3,431,610	3,508,487	3,263,606	(76,877)
Operating loss	(647,939)	(489,371)	(450,412)	(158,568)
Nonoperating revenues (expenses)				
Settlements	-	5,000	5,589,745	(5,000)
Rents and leases	65,882	36,518	135,274	29,364
All other revenues	420,867	381,002	353,799	39,865
Interest expense	(206,020)	(222,009)	(221,408)	15,989
Net nonoperating revenues (expenses)	280,729	200,511	5,857,410	80,218
Income (loss) before other revenues	(367,210)	(288,860)	5,406,998	(78,350)
Capital contributions - grants	303,419	1,140,549	913,251	(837,130)
Prior period adjustment	(100,276)	(696,103)	728,183	595,827
Change in net position	$ (164,067)	$ 155,586	$ 7,048,432	$ (915,480)

Capital Assets and Long-Term Debt

During the year ended June 30, 2017, the District added approximately $2.1 million in additions to water and sewage systems assets and $2.4 million in construction in progress.

The District's long-term debt includes Limited Obligation Improvement Bonds, Certificates of Participation funded by the United States Department of Agriculture (USDA), a loan from the State of California Department of Public Health, a loan from the California Energy Commission, and net pension liability.

Economic Factors

The local building economy has stabilized resulting in a consistent, though low, rate of new accounts. District operating revenues are flat due to the slow building industry. Plant and system expansion will continue to be monitored to serve any changes in growth.

Contacting the District's Financial Management

This financial report is designed to provide the Board of Directors, our customers, and creditors with a general overview of the District's accountability for the assets it receives and manages. If you have questions about this report or need additional information, please contact Scott Taylor, General Manager, at 8624 Segrue Road, Lamont, California 93241.

LAMONT PUBLIC UTILITY DISTRICT
BALANCE SHEETS
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and investments (Note 2)	$ 5,810,169	$ 8,095,777
Receivables		
Accounts	19,024	280,871
Grants	12,501	-
Prepaid expenses	91,021	19,418
Total current assets	5,932,715	8,396,066
Property and equipment (Note 3)	22,557,611	18,856,948
Other assets		
Assessments receivable	141,322	135,756
Total assets	28,631,648	27,388,770
Deferred outflows of resources		
Pension outflows	105,267	84,854
Total assets and deferred outflows of resources	$ 28,736,915	$ 27,473,624
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities		
Current maturities of long-term debt (Note 7)	$ 237,992	$ 228,991
Accounts payable	275,083	629,189
Accrued interest payable	41,403	47,599
Deposits	10,000	10,000
Accrued payroll and compensated absences	54,849	47,851
Total current liabilities	619,327	963,630
Long-term liabilities		
Net pension liability	22,182	22,182
Certificates of participation, less current maturities (Notes 4 and 7)	3,997,000	4,064,000
Bonds payable, less current maturities (Notes 5 and 7)	764,000	897,500
Loan payable, less current maturities (Notes 6 and 7)	2,647,280	674,847
Total long-term liabilities	7,430,462	5,658,529
Total liabilities	8,049,789	622,159
Deferred inflows of resources		
Pension inflows	11,225	11,497
Total liabilities and deferred inflows of resources	8,061,014	6,633,656
Net position		
Net investment in capital assets	14,268,808	12,991,610
Unrestricted	6,407,093	7,848,358
Total net position	20,675,901	20,839,968
Total liabilities, deferred inflows of resources, and net position	$ 28,736,915	$ 27,473,624

See Notes to Financial Statements.

LAMONT PUBLIC UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating revenues		
Water	$ 1,787,882	$ 1,755,088
Sewer	919,285	929,755
Capacity and connection fees	30,025	84,345
Other (meter rents, deposit forfeiture, etc.)	46,479	249,928
Total operating revenues	2,783,671	3,019,116
Operating expenses		
General and administration	1,569,251	1,481,351
Power	767,155	952,991
Repairs and maintenance	93,851	287,093
Depreciation	918,545	641,884
Other (contract services, lab fees, chemicals, etc.)	82,808	145,168
Total operating expenses	3,431,610	3,508,487
Operating loss	(647,939)	(489,371)
Nonoperating revenues and expenses		
Settlement income	-	5,000
Taxes and assessments	356,748	332,971
Rents and leases	65,882	36,518
Interest income	64,119	48,031
Interest expense	(206,020)	(222,009)
Total nonoperating revenues and expenses	280,729	200,511
Loss before other revenue	(367,210)	(288,860)
Capital contributions		
Grants	303,419	1,140,549
Change in net position	(63,791)	851,689
Net position, beginning of year	20,839,968	20,684,382
Prior period adjustment	(100,276)	(696,103)
Net position, end of year	$ 20,675,901	$ 20,839,968

See Notes to Financial Statements.

LAMONT PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 3,045,518	$ 3,047,723
Payments to employees	(769,558)	(804,406)
Payments to suppliers for goods and services	(2,182,903)	(1,937,789)
Net cash provided by operating activities	93,057	305,528
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(4,619,208)	(1,787,689)
Rental and investment income received	123,805	86,129
Net cash used in investing activities	(4,495,403)	(1,701,560)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Principal payments on long-term debt	(191,499)	(146,509)
Proceeds from long-term debt	1,972,433	(74,982)
Interest payments	(206,020)	(222,009)
Proceeds from property taxes and assessments	351,182	331,359
Capital grant income	290,918	1,946,556
Settlement and other nonoperating income	-	5,000
Net cash provided by capital financing activities	2,217,014	1,839,415
Net increase (decrease) in cash and investments	(2,185,332)	443,383
Cash and investments at beginning of year	8,095,777	8,348,497
Prior period adjustment	(100,276)	(696,103)
Cash and investments at end of year	$ 5,810,169	$ 8,095,777

RECONCILIATION OF OPERATING LOSS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2017	2016
Operating loss	$ (647,939)	$ (489,371)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	918,545	641,884
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	261,847	28,607
Prepaid expenses	(71,603)	35,650
Deferred outflows of resources	(20,413)	9,634
Increase (decrease) in:		
Accounts payable	(354,106)	71,356
Deferred inflows of resources	(272)	(23,729)
Payroll and net pension liabilities	6,998	31,497
Net cash provided by operating activities	$ 93,057	$ 305,528

See Notes to Financial Statements.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lamont Public Utility District (the District) is a water and sewer agency operating under the applicable laws and regulations of a special district of the State of California. It is governed by a five-member Board of Directors (the Board) elected by registered voters of the District.

A summary of the District's significant accounting policies follows:

A. Reporting Entity

The District operates as an enterprise fund. An enterprise fund accounts for operations that are financed and operated similar to private business enterprises, where the intent is that the costs of providing services to customers on a continuing basis be financed or recovered primarily through user charges.

In July 2007, the Lamont Public Utility District Financing Authority (the Authority) was formed as a nonprofit benefit corporation under the Nonprofit Benefit Corporation Law of the State of California. The purpose of the Authority is to finance the acquisition and construction of capital improvements for the District. The Authority issues Certificates of Participation (COPs), a form of long-term debt, which the District uses to finance construction of such improvements.

The District and the Authority have a financial and operational relationship that meets the reporting entity definition of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* for inclusion of the Authority as a component unit of the District. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as a part of the other.

Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue is recorded on the accrual basis of accounting when the exchange takes place. Contribution revenue is primarily recognized on a cost-reimbursement basis or in accordance with the terms of grant agreements. Expenses are recognized at the time they are incurred.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operational activities. Changes to customers represent the District's principal operating revenues and include water and sewer charges. Operating expenses include the cost of operating maintenance and support of providing water services and sewage collection and disposal services and related capital assets, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating or other revenues and expenses.

D. Budget

Although a budget is adopted annually, it is used primarily as a guideline for the Board in regulating expenditures. There is no legal requirement to stay within the adopted budget in the payment or classification of expenditures.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks and short-term, highly liquid investments with a maturity of three months or less, which includes money market funds.

G. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Accounts receivable balances that are determined to be uncollectible, along with a general reserve, are included in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, the District believes the allowance for doubtful accounts as of June 30, 2017 and 2016, is adequate. However, actual write-offs may exceed the recorded allowance.

H. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 - 40 years. Maintenance and repairs which do not increase the useful lives of the assets are charged to expense as incurred. Major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

I. Net Position

The basic financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net Position (Continued)

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Position* – This category presents net position with external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – This category represents net position of the District, not restricted for any project or other purpose.

J. Property Tax

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due and payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes for the District. Property taxes are recognized as revenue when they are levied.

K. New Accounting Pronouncements

During the fiscal year ending June 30, 2017, the District implemented the following GASB standards:

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 77 – *Tax Abatement Disclosures.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The requirements of this statement are effective for the fiscal years beginning after December 15, 2015.

GASB Statement No. 80 – *Blending Requirements for Certain Components Units - an amendment of GASB Statement No. 14.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 82 – *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

There was no effect on the District's accounting or financial reporting as a result of implementing the standards listed above.

L. Future Accounting Pronouncements

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Future Accounting Pronouncements (Continued)

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for reporting periods beginning after December 15, 2016.

GASB Statement No. 83 – *Certain Asset Retirement Obligations.* The provisions of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities.* The provisions of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85 – *Omnibus.* The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – *Certain Debt Extinguishment.* The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87 – *Leases.* The provisions of this statement are effective for reporting periods beginning after December 15, 2019.

The District has not fully judged the effect of the implementation of above listed pronouncements, as of the date of the basic financial statements.

M. Prior Period Adjustment

During the year ended June 30, 2017, several prior period adjustments were made for a total of reduction in the beginning balance of the District's Net Position of $100,276. It was determined that the prior year capital assets account had been understated by $68,125. Additionally, accounts receivable was overstated in the previous year by $238,951 for accounts carried forward for several years, which were deemed uncollectible in the current year. Lastly, corrections were made to payroll tax liabilities as they were overstated in the prior year by $70,388. Prior period adjustments were made as follows for the year ended June 30, 2017:

Statement of Revenues, Expenses, and Changes in Net Position

Net Position, Beginning	$ 20,839,968
Accounts Receivable	(238,951)
Net Investment in Capital Assets	68,287
Payroll Tax Liabilities	70,388
Net Position, Beginning as Restated	$ 20,739,692

NOTE 2 – CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2017 and 2016:

	2017	2016
Deposits with financial institutions	$ 790,368	$ 1,971,746
CalTrust Short-Term	-	689,968
CalTrust Medium-Term	-	5,434,063
Local Agency Investment Fund	5,019,801	-
Total	$ 5,810,169	$ 8,095,777

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the CalTrust Short-Term and Medium-Term joint investment pools and Local Agency Investment Fund (LAIF). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Weighted Average Maturity is not applicable to LAIF funds.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Standard & Poor's (S&P) has recently reconfirmed its "AAf" credit rating on the CalTrust Short-Term investment pool, citing "very strong protection against losses from credit defaults." In addition, S&P also has reiterated its "S1+" volatility rating on the CalTrust Short-Term investment pool, recognizing that the portfolio "possesses an extremely low sensitivity to changing market conditions." The CalTrust Medium-Term investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total investments consist of the amounts in LAIF.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental entity). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 2 – <u>CASH AND INVESTMENTS</u> (Continued)

<u>Fair Value Measurements</u>

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

The District has the following recurring fair value measurements as of June 30, 2017:

		Fair Value Measurements Using		
Investments by Fair Value Level		Quoted Prices in Active Markets Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Inputs (Level 3)
CalTrust Short-Term	$ -	$ -	$ -	$ -
CalTrust Medium-Term	-	-	-	-
Total Investments Measured at Fair Value	-	-	-	-
Local Agency Investment Fund at Amortized Cost	$ 5,019,801	$ -	$ -	$ -

The District has the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements Using		
Investments by Fair Value Level		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CalTrust Short-Term	$ 689,968	$ 689,968	$ -	$ -
CalTrust Medium-Term	5,434,063	5,434,063	-	-
Total Investments Measured at Fair Value	$ 6,124,031	$ 6,124,031	$ -	$ -

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended June 30, 2017 and 2016, is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 824,510	$ -	$ -	$ 824,510
Construction in progress	590,091	2,429,578	-	3,019,669
Total capital assets, not being depreciated	1,414,601	-	-	3,844,179
Depreciable capital assets:				
Water and sewage systems (restated)	25,387,042	2,144,506	-	27,531,548
Buildings and fixtures	957,949	-	-	957,949
Vehicles	138,623	-	-	138,623
Total depreciable capital assets	26,483,614	2,144,506	-	28,628,120
Less: accumulated depreciation	(8,996,143)	(918,545)	-	(9,914,688)
Total depreciable capital assets, net	17,487,471	1,225,961	-	18,713,432
Total capital assets, net	$ 18,902,072	$ 1,225,961	$ -	$ 22,557,611

Depreciation expense was $918,545 for the year ended June 30, 2017.

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 824,510	$ -	$ -	$ 824,510
Construction in progress (restated)	4,138,398	3,467,876	7,016,183	590,091
Total capital assets, not being depreciated	4,962,908	3,467,876	7,016,183	1,414,601
Depreciable capital assets:				
Water and sewage systems	20,398,511	4,943,404	-	25,341,915
Buildings and fixtures	565,353	392,596	-	957,949
Vehicles	138,623	-	-	138,623
Total depreciable capital assets	21,102,487	5,336,000	-	26,438,487
Less: accumulated depreciation	(8,354,252)	(641,884)	4	(8,996,140)
Total depreciable capital assets, net	12,748,235	4,694,116	4	17,442,347
Total capital assets, net	$ 17,711,143	$ 8,161,992	$ 7,016,187	$ 18,856,948

Depreciation expense was $641,884 for the year ended June 30, 2016.

NOTE 4 – CERTIFICATES OF PARTICIPATION

On May 1, 2008, the Authority issued COPs in the amount of $4,561,000 to provide funds for the improvement of the wastewater system. The interest rate is 4.125% and is payable on each March 1 and September 1.

COPs	Interest Rate	Date of Issue	Amount of Original Issue	COPs Outstanding June 30, 2016	Redeemed During Year	COPs Outstanding June 30, 2017
2008 Certificates of Participation	4.125%	5/1/2008	$ 4,561,000	$ 4,128,000	$ 64,000	$ 4,064,000

COPs	Interest Rate	Date of Issue	Amount of Original Issue	COPs Outstanding June 30, 2015	Redeemed During Year	COPs Outstanding June 30, 2016
2008 Certificates of Participation	4.125%	5/1/2008	$ 4,561,000	$ 4,190,000	$ 62,000	$ 4,128,000

The certificates mature through 2048 as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ 67,000	$ 166,258	$ 233,258
2019	70,000	163,433	233,433
2020	73,000	160,483	233,483
2021	76,000	157,410	233,410
2022	79,000	154,213	233,213
2023-2027	445,000	718,514	1,163,514
2028-2032	545,000	616,751	1,161,751
2033-2037	667,000	492,131	1,159,131
2038-2042	817,000	339,674	1,156,674
2042-2047	1,000,000	152,835	1,152,835
2048	225,000	4,641	229,641
	$ 4,064,000	$ 3,126,343	$ 7,190,343

NOTE 5 – BONDS

The 1998 Limited Obligation Improvement Bonds of $2,615,174 were issued January 7, 1998, at 4.5% interest. The final maturity date is September 2023.

The outstanding limited obligation improvement bond debt as of June 30, 2017, is as follows:

Bond	Interest Rate	Date of Issue	Amount of Original Issue	Bonds Outstanding June 30, 2016	Redeemed During Year	Bonds Outstanding June 30, 2017
Limited Obligation	4.5%	1/7/1998	$ 2,615,174	$ 1,025,000	$ 127,500	$ 897,500

NOTE 5 – BONDS (Continued)

The outstanding limited obligation improvement bond debt as of June 30, 2016, is as follows:

Bond	Interest Rate	Date of Issue	Amount of Original Issue	Bonds Outstanding June 30, 2015	Redeemed During Year	Bonds Outstanding June 30, 2016
Limited Obligation	4.5%	1/7/1998	$ 2,615,174	$ 1,147,000	$ 122,000	$ 1,025,000

The annual requirements to amortize the bonds outstanding as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ 133,500	$ 37,384	$ 170,884
2019	139,500	31,241	170,741
2020	146,000	24,817	170,817
2021	152,500	18,101	170,601
2022	159,500	11,081	170,581
2023-2024	166,500	3,746	170,246
	$ 897,500	$ 126,370	$ 1,023,870

NOTE 6 – LOANS PAYABLE

The District has a funding agreement with the State of California Department of Public Health for the construction of a well. Pursuant to the Safe Drinking Water State Revolving Fund Law of 1997, the State has loaned the District $624,926. The loan provides for interest at the rate of zero percent and requires semi-annual payments of principal on January 1 and July 1 of each year commencing December 2015. All unpaid principal is due and payable twenty years from the due date of the first payment.

Pursuant to the funding agreement, the District is required to have a fiscal services agreement with a Fiscal Agent, and maintain a separate deposit account with the Fiscal Agent in which the District must maintain sufficient funds to service the semi-annual loan payments.

The annual requirements to amortize the note outstanding at June 30, 2017, are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ 37,491	$ -	$ 37,491
2019	37,491	-	37,491
2020	37,491	-	37,491
2021	37,491	-	37,491
2022	37,491	-	37,491
2023-2027	187,455	-	187,455
2028-2032	187,455	-	187,455
2033-2035	112,482	-	112,482
	$ 674,847	$ -	$ 674,847

NOTE 6 – LOANS PAYABLE (Continued)

The District has a funding agreement with the California Energy Commission for the construction of an energy savings project to be installed at the wastewater treatment plant in the City of Lamont, California. The total loan amount available to the District is $2,900,767. The balance at June 30, 2017 was 2,009,926. The loan provides for interest at the rate of one percent and requires semi-annual payments of principal on June 22nd and December 22nd of each year commencing December 2018, until principal and interest shall be paid in full.

The annual requirements to amortize the note outstanding at June 30, 2017, are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ -	$ -	$ -
2019	182,480	19,645	202,125
2020	184,310	17,815	202,125
2021	186,158	15,967	202,125
2022	188,024	14,101	202,125
2023-2027	968,773	41,848	1,010,621
2028-2029	300,181	3,007	303,188
	$ 2,009,926	$ 112,383	$ 2,122,309

NOTE 7 – LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the years ended June 30, 2017 and 2016, is as follows:

	Balance June 30, 2016	Prior Period Adjustment	Additions	Deductions	Balance June 30, 2017	Due Within One Year	Due After One Year
Bonds:							
Limited obligation	$ 1,025,000	$ -	$ -	$ 127,500	$ 897,500	$ 133,500	$ 764,000
Certificates of participation	4,128,000	-	-	64,000	4,064,000	67,000	3,997,000
State of California loan	712,338	-	-	37,492	674,846	37,492	637,354
California Energy Commission loan	-	-	2,009,926	-	2,009,926	-	2,009,926
Net pension liability	22,182	-	-	-	22,182	-	22,182
	$ 5,887,520	$ -	$ 2,009,926	$ 228,992	$ 7,668,454	$ 237,992	$ 7,430,462

	Balance June 30, 2015	Prior Period Adjustment	Additions	Deductions	Balance June 30, 2016	Due Within One Year	Due After One Year
Bonds:							
Limited obligation	$ 1,147,000	$ -	$ -	$ 122,000	$ 1,025,000	$ 127,500	$ 897,500
Certificates of participation	4,190,000	-	-	62,000	4,128,000	64,000	4,064,000
State of California loan	749,829	-	-	37,491	712,338	37,491	674,847
Net pension liability	3,472	-	18,710	-	22,182	-	22,182
	$ 6,090,301	$ -	$ 18,710	$ 221,491	$ 5,887,520	$ 228,991	$ 5,658,529

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The District is a defendant in litigation. Although the outcome of this litigation is not presently determinable, it is the opinion of the District's legal counsel and the District's management that the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE 9 – <u>SUBSEQUENT EVENTS</u>

Management has evaluated subsequent events through January 18, 2018, the date on which the financial statements were available to be issued. No subsequent events were identified by management, which require disclosure in the financial statements.

NOTE 10 – <u>PENSION PLAN</u>

<u>General Information About the Pension Plan</u>

Plan Description

All qualified employees are eligible to participate in the District's Miscellaneous Plan (the Plan), which is a public agency cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). CalPERS acts as the common investment and administrative agency for the Plan. The CalPERS Plan consists of a miscellaneous pool (referred to as a "risk pool"), which is comprised of individual employer miscellaneous plans. The District benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement, death, disability benefits, and annual cost of living adjustments to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Public Employees Pension Reform Act (PEPRA) Members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report is a publically available valuation report that can be obtained at the CalPERS website.

Employees Covered

At June 30, 2017, the following District employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	-
Inactive Employees Entitled to but not yet Receiving Benefits	-
Active Employees	9
Total	9

Allocation of Pension Amounts to Individual Employers

The allocation method used to derive each employer's proportionate share of the net pension liability/(asset) (NPL), deferred outflows of resources, deferred inflows of resources, and pension expense/(credit) excluding employer-paid member contributions included in the schedule is consistent with GASB Statement No. 68, paragraph 49. As described in CalPERS' audited financial statements, for accounting purposes, the Plan is a legal separate entity within the Public Employees' Retirement Fund (PERF), also referred to as PERF C. In determining an employer's proportionate share, the employer rate plans included in PERF C were assigned to either the Miscellaneous or Safety risk pool. The methodology described herein applies to only public agency employers participating in either of these risk pools.

NOTE 10 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Allocation of Pension Amounts to Individual Employers (Continued)

Paragraph 49 of GASB Statement No. 68 indicates that, to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method utilized by CalPERS to determine the employer's proportionate share reflects these relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

CalPERS actuaries prepare GASB Statement No. 68 Accounting Valuation Reports by employer rate plan. Allocated pension amounts by employer reported in the schedule represent the sum of the employer rate plans' proportionate shares of pension amounts, which are derived as follows:

Total CalPERS pension liability	$ 33,358,628,000
Less: Plan fiduciary net position	24,705,532,000
Net pension liability of employers	$ 8,653,096,000

The net pension liability of the District was $22,182 at June 30, 2017.

Net Pension Liability (Asset)

In determining an individual employer rate plan's proportionate share of the NPL, estimates of the total pension liability (TPL) and the fiduciary net position (FNP) are first determined for the individual rate plans and the risk pool as a whole as of June 30, 2015 (Valuation Date).

The risk pool's FNP is subtracted from the risk pool's TPL to determine the risk pool's NPL at the Valuation Date (NPL = TPL – FNP).

Using standard actuarial roll forward methods, the risk pool's TPL is computed at the Measurement Date. The FNP for the risk pool is determined by CalPERS' Financial Office at the Measurement Date. By subtracting the FNP from the TPL, the NPL for the risk pool is computed at June 30, 2017 (Measurement Date).

The individual employer rate plan's share of the TPL, FNP, and NPL are calculated at the Valuation Date. Using the individual employer rate plan's share of the risk pool TPL and FNP at the Valuation Date, the proportionate shares of risk pool TPL and FNP at the Measurement Date are determined for each employer rate plan (i.e., individual employer rate plan TPL = (employer rate plan TPL at Valuation Date/risk pool TPL at Valuation Date) * risk pool TPL at Measurement Date).

The allocated FNP, the FNP at the Measurement Date that is allocated as described in the preceding paragraph, excludes all additional side fund or additional unfunded liability contributions made by all employers during the measurement period. The additional side fund contributions are added to the individual employer's allocated FNP to get the rate plan's FNP at the Measurement Date.

Allocated employer contributions for each individual rate plan are based on an allocation of the risk pool contributions (excluding additional side fund contributions) using the individual rate plan's proportion of allocated FNP, plus any additional side fund contributions made by the employer for that rate plan. Allocations exclude employer-paid member contributions.

NOTE 10 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Changes in Proportion

Deferred outflows of resources and deferred inflows of resources include the changes in proportions that result from CalPERS' allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS' method applies different employer proportions to various pension-related items such as FNP and TPL. This adjustment reconciles the differences in proportions for these various items with the rate plan's change in NPL during the measurement period.

Deferred outflows of resources and deferred inflows of resources relating to changes in proportions are amortized as a component of pension expense over the expected average remaining service lifetime of the membership of the plan as a whole as of the Valuation Date, with the first portion recognized in pension expense in the year measured. The remaining balance will be recognized in pension expense in future periods.

As of June 30, 2017, the District reported other amounts for the Plan as deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Actual and Expected Experience	$ 915	$ -
Net Differences between Projected and Actual Earnings on Plan Investments	58,425	-
Differences between Employer's Contributions and Proportionate Share of Contributions	11,139	-
Changes in Employer's Proportion	146	-
Contribution Subsequent to the Measurement Date	34,642	-
Changes in Assumptions	-	11,225
Total	$ 105,267	$ 11,225

Net Differences Between Projected and Actual Earnings on Plan Investments

The difference between projected and actual earnings on the risk pool's pension investments is determined using the difference between the assumed investment return (using actual asset outflows and inflows) and actual earnings of the risk pool. The employer rate plan's proportional amount of this difference is based on its portion of the risk pool's FNP determined as of the Valuation Date.

Deferred outflows of resources and deferred inflows of resources relating to the net difference between projected and actual earnings on plan investments are recognized in pension expense over a fixed 5-year period, with the first portion recognized in pension expense in the year measured. The remaining balance will be recognized in pension expense in the next four periods.

The deferred outflows of resources in the amount of $34,642 related to pensions resulting from the District contributions subsequent to the actuary measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

NOTE 10 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Net Differences Between Projected and Actual Earnings on Plan Investments (Continued)

District amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30	Amount
2018	$ 6,987
2019	8,102
2020	29,178
2021	15,133
Thereafter	-
Total	$ 59,400

Allocation of Pension Expense/(Credit) Excluding Employer-Paid Member Contributions

Service Cost

The rate plan's service cost is based on the risk pool's net service cost rate plus the employer rate plan's service cost surcharges calculated using output from the Actuarial Valuation System. This service cost rate, including surcharges, is applied to the employer's covered payroll (pensionable salaries) as of the Valuation Date and rolled forward to the Measurement Date using the risk pool's payroll growth assumption. The total amount is recognized immediately.

Interest on the Total Pension Liability

Interest on the TPL includes a full year's interest on the risk pool's TPL at the Valuation Date and a half year's interest on the risk pool's service cost and actual benefit payments. The employer rate plan's portion of this amount is based on the employer rate plan's proportion of the risk pool's TPL determined as of the valuation date. The amount is recognized immediately in pension expense.

Employee Contributions

Actual employee contributions made during the measurement period are immediately recognized in pension expense. Each employer rate plan receives an allocation of any contributions made by employees participating in new rate plans that were not included in the June 30, 2015 funding valuation. This allocation is based on each existing employer rate plan's proportion of the risk pool's total employee contributions (excluding employee contributions for the new rate plans).

Also refer to the CalPERS Public Agency Cost-Sharing Allocation Methodology Report that can be obtained at CalPERS' website under the GASB Statement No. 68 section for more details.

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION

Additional financial and actuarial information required for GASB Statement No. 68 disclosures is located in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017, which can be found on CalPERS' website, and the CalPERS' GASB Statement No. 68 Actuarial Valuation Report for the respective employer rate plan, which is available upon request from CalPERS.

NOTE 10 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION (Continued)

The District's NPL is measured as the TPL, less the Plan's FNP. The NPL of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2015, rolled forward to June 30, 2017, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The TPLs in the June 30, 2015 and the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by Entry Age and Service (1)
Mortality	Derived using CalPERS' Membership Data for all Funds (2)

(1) Depending on age, service, and type of employment.

(2) 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.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an April 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65%. 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% 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%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

NOTE 10 – PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 [a]	Real Return Years 11+ [b]
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.50%
Total	100.00%		

[a] An expected inflation of 2.5% used for this period.
[b] An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Miscellaneous
1% Decrease (6.65%)	
Net Pension Liability	$ 90,024
Current Discount Rate (7.65%)	
Net Pension Liability	$ 22,182
1% Increase (8.65%)	
Net Pension Liability	$ (33,886)

Pension Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

REQUIRED SUPPLEMENTARY INFORMATION

LAMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2017
LAST 10 YEARS*

	2017	2016	2015
District's Proportion of the Net Pension Liability	0.00064%	0.00064%	0.00006%
District's Proportionate Share of the Net Pension Liability	$ 22,182	$ 22,182	$ 3,472
Covered-Employee Payroll	$ 651,091	$ 688,350	$ 712,962
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	3.41%	3.22%	0.49%
Plan's Fiduciary Net Position	$ 24,705,532,291	$ 24,705,532,291	$ 24,607,503,000
Plan's Total Pension Liability	$ 33,358,627,624	$ 33,358,627,624	$ 30,829,967,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.06%	74.06%	79.82%

* Fiscal year 2015 was the first year of implementation; therefore, only three years are shown.

LAMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2017
LAST 10 YEARS*

	2017	2016	2015
Contractually Required Contribution (Actuarially Determined)	$ 26,933	$ 26,933	$ 15,841
Contributions in Relation to the Actuarially Determined Contributions	26,933	26,933	15,841
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 651,091	$ 688,350	$ 712,962
Contributions as a Percentage of Covered-Employee Payroll	4.14%	3.91%	2.22%

* Fiscal year 2015 was the first year of implementation; therefore, only three years are shown.

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Lamont Public Utility District
Lamont, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lamont Public Utility District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified deficiencies in internal control that we consider to be significant deficiencies, as defined above, which are described in the accompanying schedule of findings and responses as items Findings 2017-01 through 2017-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
January 18, 2018

FINANCIAL STATEMENT FINDINGS

FS-2017-01

Credit Card Finding

Criteria: Internal controls should be suitably designed to prevent and detect misappropriation of Lamont Public Utility District (the District) assets.

Condition: During our testing of the District credit card payments, we noted that several credit card statements were paid without adequate approval or support. It was noted that for 72 credit card payments made, 23 of the transactions lacked adequate support.

Cause of Condition: Internal controls have not been suitably designed and implemented over the cash disbursement procedures at the District to maintain adequate financial records, and the District is not enforcing adequate review and authorization of credit card payments.

Effect of Condition: There is a risk that credit card payments could be made for expenses unrelated to the business purposes of the District.

Recommendation: We recommend the District strengthen and enforce the District purchasing and credit card policies to include requirements for the appropriate agent or manager to review all credit card statements for proper general ledger coding, adequate supporting documentation, determination of business purpose, and require approvals from the appropriate agent prior to any payments being made on credit cards.

Management's Response: The District agrees in part and disagrees in part with the findings. The District informed the auditors of previous staff that failed to retain credit card receipts prior to management and staff being hired. The District does agree in that specific controls have been implemented to ensure verification of charges and documentation retention to support credit card usage. Further, controls have been implemented limiting usage of a single credit card requiring approval before usage. The District further agrees that it is currently reviewing credit card statements and transactions to confirm and verify the legitimacy of the transaction and payment thereof. There was significant turnover in the accounting department in the current year. The District has hired a finance officer to assist in the process and create better internal controls and review processes.

FS-2017-02

Journal Entry Approvals Finding

Criteria: In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations or reliable financial and performance reporting.

Condition: During our journal entry testing, we noted all 5 samples tested lacked a signature from the preparer as well as proper management approval.

Cause of Condition: We noted a lack of management oversight over journal entries.

Effect of Condition: There is a potential for accounts to be misappropriated if journal entries are not properly approved.

Recommendation: We recommend the District implement an approval process for journal entries.

Management's Response: The District disagrees with the finding. Management oversight is not lacking. Due to the small office size and time/budgetary constraints, the District chose not to implement new procedures for Journal Entries. As a mitigating control, the District's finance officer oversees the journal entry process and the Board of Directors actively monitors monthly financials.

FS-2017-03

<u>Accruals Finding</u>

Criteria: In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations or reliable financial and performance reporting.

Condition: Accruals required for the cut-off date were not properly made. We noted for 1 out of 40 cash disbursement transactions tested, the one sample should have been accrued in the previous fiscal year. The amount was not material to the financial statements, therefore, we did not propose a prior period adjustment for amount.

Cause of Condition: We noted that the transaction was not accrued due to a lack in management oversight.

Effect of Condition: Account balances could be potentially materially misstated in the absence of the appropriate accruals.

Recommendation: We recommend the District strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements.

Management's Response: The District disagrees with the cause of condition. This did not occur because of a lack of oversight by management. This was due to unskilled financial staff that no longer work for the District. The District has hired a finance officer to instill appropriate year-end closing procedures and to insure transactions associated with the particular fiscal year are recorded timely and accordingly. It was noted that this transaction occurred in the previous fiscal audit period. The District is reviewing previous accounting records to ensure that the proper accruals have been made and will continue to improve accounting records.

FS-2017-04

<u>Sewer Operations Deficit</u>

Criteria: (Required for financial audits performed under *Government Auditing Standards*) Rates adopted by the District should be sufficient to cover related activities.

Condition: During the course of our audit procedures, we noted through our inquiry and analysis that the District's Sewer operations has an operating deficit of $1,240,000 which was covered by the District's Water operations. It appears that the Sewer operation rates are insufficient to cover its activities. This resulted in material deficits attributable to the District's Sewer operations which were covered by its Water operations for several years.

Cause of Condition: We noted that a payment plan was not included in the adopted budget of the District for the 2016-17 fiscal year.

Potential Effect of Condition: There is a potential for the District's Sewer operations to increasingly run at a deficit.

Recommendation: We recommend that the District implement more appropriate budgets to accurately address cost needs for the Sewer and Water operations. Additionally, we recommend that the District establish two separate enterprise funds to better track performance of the two activities.

Management's Response: The District agrees that its rates do not address the cost needs of the Water and Sewer services. District management is in the process of beginning a fee rate study to determine appropriate rates for services provided and will be seeking rate increases in the foreseeable future.

FINANCIAL STATEMENT FINDINGS

FS-2016-01

Accruals Finding

Criteria: Liabilities should be recorded in the proper accounting period.

Condition: Accruals required for the cut-off date were not properly made. Liabilities were not recorded in the proper accounting period. Additionally, we noted that a material amount of construction in progress was not accrued as of year-end as a result of our cutoff testing. We noted that a Progress Payment existed, which should have been accrued for the amount of $180,910. The Lamont Public Utility District (the District) posted a journal entry to correct the final balance of payables and capital assets to the appropriate balance.

Cause of Condition: Internal controls have not been suitably designed and implemented over the financial reporting process to ensure that the timely closure of the general ledger and sufficient management supervision of this process results in reliable and materially correct ending account balances in accordance with accounting principles generally accepted in the United States of America (GAAP).

Effect of Condition: Account balances could be potentially materially misstated in the absence of the appropriate accruals.

Recommendation: We recommend the District strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements.

Management's Response: The District has hired a finance officer to instill appropriate year-end closing procedures and to insure transactions associated with the particular fiscal year are recorded timely and accordingly.

Current Year Status: See FS-2017-03.

FS-2016-02

Credit Card Finding

Criteria: Internal controls should be suitably designed to prevent and detect misappropriation of District assets.

Condition: During our testing of the District credit card payments, we noted that several credit card statements were paid without records of appropriate review or approval. We additionally noted that there was improper coding to the general ledger for transactions, and 1 of the 10 samples could not be located.

Cause of Condition: Internal controls have not been suitably designed and implemented over the cash disbursement procedures at the District to maintain adequate financial records, and the District is not enforcing adequate review and authorization of credit card payments.

Effect of Condition: There is a risk that credit card payments could be made for expenses unrelated to the business purposes of the District.

Recommendation: We recommend the District strengthen and enforce the District purchasing and credit card policies to include requirements for the appropriate agent or manager to review all credit card statements for proper general ledger coding, adequate supporting documentation, determination of business purpose, and require approvals from the appropriate agent prior to any payments being made on credit cards.

Management's Response: The District agrees in part and disagrees in part with the findings. The District informed the auditors of previous staff that failed to retain credit card receipts prior to management and staff being hired. The District does agree in that specific controls have been implemented to ensure verification of charges and documentation retention to support credit card usage. Further, controls have been implemented limiting usage of a single credit card requiring approval before usage. The District further agrees that it is currently reviewing credit card statements and transactions to confirm and verify the legitimacy of the transaction and payment thereof. There was significant turnover in the accounting department in the current year. The District has hired a finance officer to assist in the process and create better internal controls and review processes.

Current Year Status: See FS-2017-01.

FS-2016-03

Cash Drawer Overage Finding

Criteria: In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition: While performing our cash receipts testing and walkthrough of the District's cash receipts process, we noted through our documentation of controls and observation that the District was not in compliance with the District cash receipts policy/procedures. We noted that when cash in the drawer reaches $500, the Billing Clerk is to drop the rest of the money in the drop box at their desk. We observed the cash turned into the General Manager reached an amount in excess of the amount.

Cause of Condition: We noted that there is a lack of oversight over cash collection activities.

Effect of Condition: There is a potential for cash to be misappropriated if not timely deposited to the drop box, prior to being deposited to the bank.

Recommendation: We noted the District did implement daily cash collections from an armored truck service for more timely deposits in the current year; however, we further recommend increased oversight and increased controls related to the cash collection process. It may be beneficial for management to perform more frequent cash collection counts periodically throughout the day, and track each count in a log to prevent misappropriation, fraud, or other potential threats at the District.

Management's Response: The District management is now counting the cash receipts and reconciling that with the daily receipt reports. This creates better oversight and minimizes mishandling of cash. Further, cash is counted each day and secured for pick up by an armored car service on a daily basis. Cash drops are being utilized; however, management is implementing an improved method including better secured drop boxes for cashiers.

Current Year Status: Implemented.

FS-2016-04

Sewer Operations Deficit

Criteria: (Required for financial audits performed under *Government Auditing Standards*) Rates adopted by the District should be sufficient to cover related activities.

Condition: During the course of our audit procedures, we noted through our inquiry and analysis that the District's Sewer operations has an operating deficit of $1,240,000 which was covered by the District's Water operations. It appears that the Sewer operation rates are insufficient to cover its activities. This resulted in material deficits attributable to the District's Sewer operations which were covered by its Water operations for several years.

Cause of Condition: We noted that a payment plan was not included in the adopted budget of the District for the 2015-16 fiscal year.

Potential Effect of Condition: There is a potential for the District's Sewer operations to increasingly run at a deficit.

Recommendation: We recommend that the District implement more appropriate budgets to accurately address cost needs for the Sewer and Water operations. Additionally, we recommend that the District establish two separate enterprise funds to better track performance of the two activities.

Management's Response: The District agrees that its rates do not address the cost needs of the water and sewer services. District management is in the process of beginning a fee rate study to determine appropriate rates for services provided and will be seeking rate increases in the foreseeable future.

Current Year Status: See FS-2017-04.

FS-2016-05

Payroll

Criteria: In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal controls should be designed to prevent payroll fraud and unauthorized salary increases, which can provide reasonable assurance of achieving effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

Condition: While performing our payroll testing and walkthrough of the District's payroll process, we noted that the District had excessive overtime that was charged without a formal approval process.

Cause of Condition: We noted that there is a lack of management oversight on overtime that is charged.

Effect of Condition: Personnel are potentially able to receive unauthorized and excessive overtime. This may result in inefficient operations.

Recommendation: We recommend that the District strengthen its internal controls for payroll by implementing stronger approval controls on overtime that is charged.

Management's Response: A salary matrix was developed last year; however, it is still undergoing improvements. The District is in the process of creating a more understandable salary structure and salary step increase process.

Status: Implemented.