

**Lompico County Water District**  
**Annual Financial Report**  
**June 1, 2016 and June 30, 2015**



**Fedak & Brown LLP**  
Certified Public Accountants

**Lompico County Water District  
Board of Directors as of June 1, 2016**

| <u>Name</u>     | <u>Title</u>   | <u>Elected/<br/>Appointed</u> | <u>Term<br/>Expires</u> |
|-----------------|----------------|-------------------------------|-------------------------|
| Lois Henry      | President      | Elected                       | June 1, 2016            |
| Bill Smallman   | Vice President | Elected                       | June 1, 2016            |
| Merrie Schaller | Director       | Elected                       | June 1, 2016            |
| John Schneider  | Director       | Elected                       | June 1, 2016            |
| Rob Hansel      | Director       | Elected                       | June 1, 2016            |

**Lompico County Water District  
11255 Lompico Road  
Felton, California 95018**

**Lompico County Water District**

**Annual Financial Report**

**For the Periods Ended June 30, 2015 and the  
Eleven Month Period Ended June 1, 2016**

**Lompico County Water District**  
**Annual Financial Report**  
**For the Periods Ended June 30, 2015 and the**  
**Eleven Month Period Ended June 1, 2016**

**Table of Contents**

|   | <b><u>Page No.</u></b> |
|---|------------------------|
| Table of Contents   | i                      |
| <b>Financial Section</b>  |                        |
| Independent Auditor's Report  | 1-2                    |
| Management's Discussion and Analysis  | 3-7                    |
| Basic Financial Statements:   |                        |
| Statements of Net Position  | 8                      |
| Statements of Revenues, Expenses and Changes in Net Position  | 9                      |
| Statements of Cash Flows  | 10-11                  |
| Notes to the Basic Financial Statements   | 12-28                  |
| Required Supplemental Information:  |                        |
| Schedule of the District's Proportionate Share of the Net Pension Liability   | 29                     |
| Schedule of Pension Plan Contributions  | 30                     |
| <b>Report on Internal Controls and Compliance</b>   |                        |
| Independent Auditor's Report on Internal Control Over Financial Reporting<br>And on Compliance and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> | 31-32                  |

# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

# Fedak & Brown LLP

Certified Public Accountants

Cypress Office:  
6081 Orange Avenue  
Cypress, California 90630  
(657) 214-2307  
FAX (714) 527-9154

Riverside Office:  
4204 Riverwalk Pkwy. Ste. 390  
Riverside, California 92505  
(951) 977-9888

## Independent Auditor's Report

Board of Directors  
Lompico County Water District  
Lompico, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Lompico County Water District (District), which comprises the statements of net position as of June 30, 2015 and the eleven month period ended June 1, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the periods then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express 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; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinions*

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lompico County Water District as of June 30, 2015 and the eleven month period ended June 1, 2016, and the respective changes in net position, and, where applicable, cash flows thereof for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report, continued

### *Emphasis of matter*

As described in Note 1 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*, for the period ended June 1, 2016. Our opinion is not modified with respect to this matter.

The financial statements as of and for the year ended June 30, 2014, were audited by the predecessor auditor who expressed an unmodified opinion on their report dated November 9, 2015. In their report, the predecessor auditor reported an Emphasis of Matter regarding the District's ability to continue as a going concern.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 29 to 30 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 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 17, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 31 and 32.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California

January 17, 2017



**Lompico County Water District**  
*Management's Discussion and Analysis*  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Lompico County Water District (District) provides an introduction to the financial statements of the District for the fiscal periods ended June 30, 2015 and eleven month period ended June 1, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position increased 10.5% or \$95,798 to \$1,009,192.
- Operating revenues increased 18.0% or \$91,103 to \$597,849.
- Non-operating revenues increased 9.1% or \$12,837 to \$153,461.
- Operating expenses increased 17.3% or \$82,633 to \$560,218.
- Non-operating expenses increased 125.9% or \$3,221 to \$5,779.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The District's statements consist of a Water Fund. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water to the customers of the District are financed primarily through user charges.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue 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 if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing 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 Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

**Lompico County Water District**  
**Management's Discussion and Analysis, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**Financial Analysis of the District, continued**

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 28.

**Condensed Statements of Net Position**

|                                       | <b>6/1/2016</b>     | <b>6/30/2015</b> | <b>Change</b>   |
|---------------------------------------|---------------------|------------------|-----------------|
| <b>Assets:</b>                        |                     |                  |                 |
| Current assets                        | \$ 325,938          | 239,990          | 85,948          |
| Non-current assets                    | 1,001,461           | 1,083,610        | (82,149)        |
| <b>Total assets</b>                   | <b>1,327,399</b>    | <b>1,323,600</b> | <b>3,799</b>    |
| <b>Deferred outflows of resources</b> | <b>17,754</b>       | <b>15,586</b>    | <b>2,168</b>    |
| <b>Liabilities:</b>                   |                     |                  |                 |
| Current liabilities                   | 145,209             | 156,002          | (10,793)        |
| Non-current liabilities               | 168,880             | 235,045          | (66,165)        |
| <b>Total liabilities</b>              | <b>314,089</b>      | <b>391,047</b>   | <b>(76,958)</b> |
| <b>Deferred inflows of resources</b>  | <b>21,872</b>       | <b>34,745</b>    | <b>(12,873)</b> |
| <b>Net position:</b>                  |                     |                  |                 |
| Net investment in capital assets      | 875,461             | 878,373          | (2,912)         |
| Restricted                            | 55,681              | 58,289           | (2,608)         |
| Unrestricted                          | 78,050              | (23,268)         | 101,318         |
| <b>Total net position</b>             | <b>\$ 1,009,192</b> | <b>913,394</b>   | <b>95,798</b>   |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$1,009,192 and \$913,394 as of June 1, 2016 and June 30, 2015, respectively. Compared to prior year, net position of the District increased 10.5% or \$95,798. The District's total net position is made up of three components: (1) net investment in capital assets; (2) restricted net position; (3) unrestricted net position.

By far the largest portion of the District's net position (87% and 96% as of June 1, 2016 and June 30, 2015) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending. See Note 8 for further information.

**Lompico County Water District**  
**Management's Discussion and Analysis, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**Condensed Statements of Net Position, continued**

At the end of fiscal period June 1, 2016, the District showed a positive balance in its unrestricted net position of \$78,050. See Note 8 for the amount of spendable net position that may be utilized in future years.

**Statement of Revenues, Expenses and Changes in Net Position**

|  | <b>6/1/2016</b> | <b>6/30/2015</b> | <b>Change</b> |
|--|-----------------|------------------|---------------|
| <b>Revenues:</b>   |                 |                  |               |
| Operating revenues   | \$ 597,849      | 506,746          | 91,103        |
| Non-operating revenues   | 153,461         | 140,624          | 12,837        |
| Total revenues   | 751,310         | 647,370          | 103,940       |
| <b>Expenses:</b>   |                 |                  |               |
| Operating expenses   | 560,218         | 477,585          | 82,633        |
| Non-operating expenses   | 5,779           | 2,558            | 3,221         |
| Depreciation   | 89,515          | 84,850           | 4,665         |
| Total expenses   | 655,512         | 564,993          | 90,519        |
| <b>Change in net position</b>                                  | 95,798          | 82,377           | 13,421        |
| <b>Net position, beginning of period, as previously stated</b> | 913,394         | 1,047,974        | (134,580)     |
| <b>Prior period adjustment (note 7)</b>                        | -               | (216,957)        | 216,957       |
| <b>Net position, beginning of period, as restated</b>          | 913,394         | 831,017          | 82,377        |
| <b>Net position – end of period</b>                            | \$ 1,009,192    | 913,394          | 95,798        |

The statement of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, net position increased 10.5% or \$95,798 to \$1,009,192, as a result of ongoing operations.

A closer examination of the sources of changes in net position reveals that:

Total operating revenues increased 18.0% or \$91,103 to \$597,849, primarily due to a 95% increase in the District's ready to serve fees to customers from \$105 to \$205 per household.

Total non-operating revenues increased 9.1% or \$12,837 to \$153,461, primarily due to increases of \$7,284 in property tax revenues, an \$8,166 adjustment to recognize balances previously expensed as bad debts and an \$886 in interest earnings.

Total operating expenses increased 17.3% or \$82,633 to \$560,218, primarily due to increases in salaries and benefits of \$85,067, professional services of \$81,552, and office expenses of \$17,577, which was offset by a decrease in building maintenance of \$108,736.

Total non-operating expenses increased 125.9% or \$3,221 to \$5,779, primarily due to an increase in bond interest expense.

**Lompico County Water District**  
**Management's Discussion and Analysis, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**Capital Asset Administration**

Change in capital assets amounts as of June 1, 2016, were as follows:

|                          | <u>Balance<br/>6/30/2015</u> | <u>Additions</u> | <u>Transfers/<br/>Disposals</u> | <u>Balance<br/>6/1/2016</u> |
|--------------------------|------------------------------|------------------|---------------------------------|-----------------------------|
| Capital assets:          |                              |                  |                                 |                             |
| Non-depreciable assets   | \$ 34,820                    | -                | -                               | 34,820                      |
| Depreciable assets       | 3,845,776                    | 7,366            | -                               | 3,853,142                   |
| Accumulated depreciation | <u>(2,796,986)</u>           | <u>(89,515)</u>  | <u>-</u>                        | <u>(2,886,501)</u>          |
| Total capital assets     | <u>\$ 1,083,610</u>          | <u>(82,149)</u>  | <u>-</u>                        | <u>1,001,461</u>            |

At the end of fiscal period June 1, 2016, the District's investment in capital assets amounted to \$1,001,461 (net of accumulated depreciation).

Change in capital assets amounts for 2015, were as follows:

|                          | <u>Balance<br/>6/30/2014</u> | <u>Additions</u> | <u>Transfers/<br/>Disposals</u> | <u>Balance<br/>6/30/2015</u> |
|--------------------------|------------------------------|------------------|---------------------------------|------------------------------|
| Capital assets:          |                              |                  |                                 |                              |
| Non-depreciable assets   | \$ 98,209                    | -                | (63,389)                        | 34,820                       |
| Depreciable assets       | 3,745,044                    | 133,225          | (32,493)                        | 3,845,776                    |
| Accumulated depreciation | <u>(2,744,629)</u>           | <u>(84,850)</u>  | <u>32,493</u>                   | <u>(2,796,986)</u>           |
| Total capital assets     | <u>\$ 1,098,624</u>          | <u>48,375</u>    | <u>(63,389)</u>                 | <u>1,083,610</u>             |

At the end of fiscal year 2015, the District's investment in capital assets amounted to \$1,083,610 (net of accumulated depreciation).

See Note 3 for further capital asset information.

**Debt Administration**

Changes in long-term debt amounts for the period ended June 1, 2016, were as follows:

|                      | <u>Balance<br/>6/30/2015</u> | <u>Additions</u> | <u>Principal<br/>Payments</u> | <u>Balance<br/>6/1/2016</u> |
|----------------------|------------------------------|------------------|-------------------------------|-----------------------------|
| Long-term debt:      |                              |                  |                               |                             |
| Loans payable        | \$ 16,237                    | -                | (16,237)                      | -                           |
| Bonds payable        | <u>189,000</u>               | <u>-</u>         | <u>(63,000)</u>               | <u>126,000</u>              |
| Total long-term debt | <u>\$ 205,237</u>            | <u>-</u>         | <u>(79,237)</u>               | <u>126,000</u>              |

**Lompico County Water District**  
*Management's Discussion and Analysis, continued*  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**Debt Administration, continued**

Changes in long-term debt amounts for the year ended June 30, 2015, were as follows:

|                      | <u>Balance</u><br><u>6/30/2014</u> | <u>Additions</u> | <u>Principal</u><br><u>Payments</u> | <u>Balance</u><br><u>6/30/2015</u> |
|----------------------|------------------------------------|------------------|-------------------------------------|------------------------------------|
| Long-term debt:      |                                    |                  |                                     |                                    |
| Notes payable        | \$ 85,126                          | -                | (68,889)                            | 16,237                             |
| Bonds payable        | <u>248,500</u>                     | <u>-</u>         | <u>(59,500)</u>                     | <u>189,000</u>                     |
| Total long-term debt | <u>\$ 333,626</u>                  | <u>-</u>         | <u>(128,389)</u>                    | <u>205,237</u>                     |

See Note 4 for further long-term debt service information.

**Conditions Affecting Current Financial Position**

Due to the District's limited revenue stream and increasing costs to provide adequate service, the District was annexed with the San Lorenzo Valley Water District on June 1, 2016. See Note 6.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Finance Manager, Stephanie Hill at San Lorenzo Valley Water District, 13060 Highway 9 Boulder Creek, California 95006 or (831) 430-4620.

# **Basic Financial Statements**

**Lompico County Water District**  
**Statements of Net Position**  
**June 1, 2016 and June 30, 2015**

|  | <b>6/1/2016</b>     | <b>6/30/2015</b> |
|--|---------------------|------------------|
| <b>Current assets:</b>                             |                     |                  |
| Cash & cash equivalents (note 2)                   | \$ 228,526          | 70,496           |
| Cash & cash equivalents – restricted (note 2)      | 55,681              | 58,289           |
| Accounts receivable                                | 39,436              | 101,309          |
| Materials and supplies inventory                   | 2,295               | 9,896            |
| Total current assets                               | 325,938             | 239,990          |
| <b>Non-current assets:</b>                         |                     |                  |
| Capital assets – not being depreciated (note 3)    | 34,820              | 34,820           |
| Capital assets – being depreciated (note 3)        | 966,641             | 1,048,790        |
| Total non-current assets                           | 1,001,461           | 1,083,610        |
| <b>Total assets</b>                                | <b>1,327,399</b>    | <b>1,323,600</b> |
| <b>Deferred outflows of resources:</b>             |                     |                  |
| Deferred pension outflows (note 5)                 | 17,754              | 15,586           |
| <b>Total deferred outflows of resources</b>        | <b>17,754</b>       | <b>15,586</b>    |
| <b>Current liabilities:</b>                        |                     |                  |
| Accounts payable and accrued expense               | 60,125              | 16,583           |
| Accrued wages and related payables                 | -                   | 4,682            |
| Settlement payable                                 | -                   | 17,450           |
| Unearned revenues – customer deposits              | 18,250              | 32,501           |
| Accrued interest payable                           | 1,834               | 5,549            |
| Long-term liabilities – due in one year:           |                     |                  |
| Loans payable (note 4)                             | -                   | 16,237           |
| Bonds payable (note 4)                             | 65,000              | 63,000           |
| Total current liabilities                          | 145,209             | 156,002          |
| <b>Non-current liabilities:</b>                    |                     |                  |
| Long-term liabilities – due in more than one year: |                     |                  |
| Net pension liability (note 5)                     | 107,880             | 109,045          |
| Bonds payable (note 4)                             | 61,000              | 126,000          |
| Total non-current liabilities                      | 168,880             | 235,045          |
| <b>Total liabilities</b>                           | <b>314,089</b>      | <b>391,047</b>   |
| <b>Deferred inflows of resources</b>               |                     |                  |
| Deferred pension inflows (note 5)                  | 21,872              | 34,745           |
| <b>Total deferred inflows of resources</b>         | <b>21,872</b>       | <b>34,745</b>    |
| <b>Net position: (note 8)</b>                      |                     |                  |
| Net investment in capital assets                   | 875,461             | 878,373          |
| Restricted for debt service                        | 55,681              | 58,289           |
| Unrestricted                                       | 78,050              | (23,268)         |
| <b>Total net position</b>                          | <b>\$ 1,009,192</b> | <b>913,394</b>   |

See accompanying notes to the basic financial statements

**Lompico County Water District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

|  | <b>6/1/2016</b> | <b>6/30/2015</b> |
|--|-----------------|------------------|
| <b>Operating revenues:</b>                                     |                 |                  |
| Water consumption sales  | \$ 595,385      | 478,327          |
| Charges and penalties  | 2,464           | 28,419           |
| Total operating revenues                                       | 597,849         | 506,746          |
| <b>Operating expenses:</b>                                     |                 |                  |
| Salaries and benefits  | 188,620         | 103,553          |
| Professional services  | 165,526         | 83,974           |
| Materials and supplies   | 36,067          | 30,531           |
| Vehicle and equipment maintenance                              | 3,238           | 1,797            |
| Building maintenance   | 104,468         | 213,204          |
| Repairs  | 327             | 111              |
| Utilities and telephone  | 10,215          | 11,616           |
| Insurance  | 9,748           | 9,251            |
| LAFCO fees   | 863             | 830              |
| Travel, meals and conferences                                  | 6,587           | 5,736            |
| Office expenses  | 34,559          | 16,982           |
| Total operating expenses                                       | 560,218         | 477,585          |
| Operating income before depreciation expense                   | 37,631          | 29,161           |
| Depreciation expense   | (89,515)        | (84,850)         |
| <b>Operating loss</b>  | (51,884)        | (55,689)         |
| <b>Non-operating revenues (expenses):</b>                      |                 |                  |
| Property tax revenues  | 138,653         | 131,369          |
| Interest earnings  | 1,169           | 283              |
| Interest expense   | (5,779)         | (2,558)          |
| Gain on disposition of capital assets                          | -               | 3,500            |
| Other operating income, net                                    | 13,639          | 5,472            |
| Total non-operating revenues, net                              | 147,682         | 138,066          |
| <b>Change in net position</b>                                  | 95,798          | 82,377           |
| <b>Net position, beginning of period, as previously stated</b> | 913,394         | 1,047,974        |
| <b>Prior period adjustment (note 7)</b>                        | -               | (216,957)        |
| <b>Net position, beginning of period, as restated</b>          | 913,394         | 831,017          |
| <b>Net position, end of period</b>                             | \$ 1,009,192    | 913,394          |

See accompanying notes to the basic financial statements



**Lompico County Water District**  
**Statements of Cash Flows**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

|  | <b>6/1/2016</b>   | <b>6/30/2015</b> |
|--|-------------------|------------------|
| <b>Cash flows from operating activities:</b>                                     |                   |                  |
| Cash receipts from customers for sales and services                              | \$ 659,722        | 636,193          |
| Cash paid to employees for salaries and wages                                    | (168,537)         | (149,097)        |
| Cash paid to vendors and suppliers for materials and services                    | (393,127)         | (386,968)        |
| Net cash provided by operating activities  | 98,058            | 100,128          |
| <b>Cash flows from non-capital financing activities:</b>                         |                   |                  |
| Proceeds from property taxes   | 138,653           | 60,606           |
| Other non-operating revenues, net  | 13,639            | 5,472            |
| Net cash provided by non-capital financing activities                            | 152,292           | 66,078           |
| <b>Cash flows from capital and related financing activities:</b>                 |                   |                  |
| Acquisition and construction of capital assets                                   | (7,366)           | (37,343)         |
| Gain on disposition of capital assets  | -                 | 3,500            |
| Principal paid on long-term debt   | (79,237)          | (128,389)        |
| Interest paid on long-term debt  | (9,494)           | (6,008)          |
| Net cash used in capital and related financing activities:                       | (96,097)          | (168,240)        |
| <b>Cash flows from investing activities:</b>                                     |                   |                  |
| Interest earnings  | 1,169             | 283              |
| Net cash provided by investing activities  | 1,169             | 283              |
| <b>Net increase in cash and cash equivalents</b>                                 | <b>155,422</b>    | <b>(1,751)</b>   |
| <b>Cash and cash equivalents, beginning of period</b>                            | <b>128,785</b>    | <b>130,536</b>   |
| <b>Cash and cash equivalents, end of period</b>                                  | <b>\$ 284,207</b> | <b>128,785</b>   |
| <b>Reconciliation of cash and cash equivalents to statement of net position:</b> |                   |                  |
| Cash and cash equivalents  | \$ 228,526        | 70,496           |
| Cash and cash equivalents – restricted   | 55,681            | 58,289           |
| Total cash and cash equivalents  | \$ 284,207        | 128,785          |

Continued on next page

See accompanying notes to the basic financial statements

**Lompico County Water District**  
**Statements of Cash Flows, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

|   | <b>6/1/2016</b>         | <b>6/30/2015</b>      |
|---|-------------------------|-----------------------|
| <b>Reconciliation of operating loss to net cash provided by operating activities:</b>                     |                         |                       |
| <b>Operating loss</b>   | \$ <u>(51,884)</u>      | <u>(55,689)</u>       |
| <b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>              |                         |                       |
| Depreciation and amortization   | 89,515                  | 84,850                |
| <b>Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:</b> |                         |                       |
| (Increase) decrease in assets and deferred outflows of resources:   |                         |                       |
| Accounts receivable – water sales and services, net   | 61,873                  | 129,447               |
| Prepaid expenses  | -                       | 1,326                 |
| Materials and supplies inventory  | 7,601                   | 7,601                 |
| Deferred outflows of resources  | (2,168)                 | 14,612                |
| Increase (decrease) in liabilities and deferred inflows of resources:                                     |                         |                       |
| Accounts payable and accrued expense  | 43,542                  | 9,742                 |
| Accrued wages and related payables  | (4,682)                 | (829)                 |
| Settlement payable  | (17,450)                | 17,450                |
| Unearned revenues – customer deposits   | (14,251)                | 1,220                 |
| Net pension liability   | (1,165)                 | (144,308)             |
| Deferred inflows of resources   | <u>(12,873)</u>         | <u>34,706</u>         |
| <b>Total adjustments</b>  | <u>149,942</u>          | <u>155,817</u>        |
| <b>Net cash provided by operating activities</b>  | \$ <u><u>98,058</u></u> | <u><u>100,128</u></u> |

See accompanying notes to the basic financial statements

**Lompico County Water District**  
**Notes to the Financial Statements**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

Lompico County Water District (District) was organized on April 3, 1963. The District provides facilities and services in the rural area known as Lompico, California. The District utilizes a Water fund to account for District operations. The District provides water service to approximately 500 customers within its service area.

On June 1, 2016, the District was dissolved and annexed by San Lorenzo Valley Water District (Transferee). Pursuant to Government Code Section 57200, a certificate is issued by the Executive Officer of the Local Agency Formation Commission (LAFCO) of Santa Cruz County, California to complete the reorganization between the District and the Transferee. The reorganization between the District and the Transferee was approved by the Local Agency Formation Commission (LAFCO) on August 6, 2014 under LAFCO Resolution No. 953-A. Please see note 6 for a detailed discussion of the transfer of operations.

The criteria used in determining the transfer of operations is based on the provisions of Governmental Accounting Statements No. 69 (GASB 69), *Government Combinations and Disposals of Government Operations*. The effective transfer date of operations is June 1, 2016, which is the date the Transferee obtains control of the assets and deferred outflows of resources and becomes obligated for the liabilities and deferred inflows of resources of the District's operation transferred. The Transferee should recognize the carrying values of assets, deferred outflows of resources, liabilities and deferred inflows of resources of the operations of the District as of June 1, 2016. The net position received or assumed by the Transferee should be reported as a special item in the statement of revenues, expenditures and changes in fund balances in the period in which the transfer occurs.

**B. Basis of Accounting and Measurement Focus**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water services to its customers on a continuing basis be financed or recovered primarily through user charges (water service fees). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water fees, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

The District recognizes revenue from water service charges based on cycle billings performed bi-monthly. The District accrues revenues with respect to water service sold but not billed at the end of a fiscal period.

**C. Financial Reporting**

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

The District has adopted the following GASB pronouncements in the current year:

*Government Accounting Standards Board Statement No. 72*

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015.

The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

*Government Accounting Standards Board Statement No. 73*

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

*Government Accounting Standards Board Statement No. 76*

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

*Government Accounting Standards Board Statement No. 79*

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*, effective for financial statements for periods beginning after June 15, 2015.

This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position**

**1. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

**2. Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The District's cash equivalents are comprised of bank deposits, equity in investment cash pools maintained and managed by the County of Santa Cruz.

**3. Investment and Investment Policy**

The District is authorized, in accordance with Section 53601 of the California Government Code, to invest in the following investments: Treasury Bills, Treasury Bonds, banks, savings and loan companies that are insured through the FDIC, credit unions that are insured through the National Credit Union Association up to \$250,000 per institution. The District is also allowed to invest with the State Treasurer's Local Agency Investment Funds (LAIF) and the Santa Cruz County Treasurer. The Board has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed.

**4. Accounts Receivable and Allowance for Uncollectible Accounts**

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

**5. Property Taxes and Assessments**

The Santa Cruz County Assessor's Office assesses all real and personal property within the County each year. The Santa Cruz Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Santa Cruz County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the Santa Cruz County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

|                  |                           |
|------------------|---------------------------|
| Lien date        | March 1                   |
| Levy date        | July 1                    |
| Due dates        | November 1 and February 1 |
| Collection dates | December 10 and April 10  |

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued**

**6. Materials and Supplies Inventory**

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed. The current reported value of inventories on the District's books has been updated.

**7. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Building and structures – 20 to 50 years
- Vehicles and equipment – 5 to 20 years

**8. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

**9. Deferred Inflows of Resources**

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

**10. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

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:

- Valuation Date: June 30
- Measurement Date: June 30
- Measurement Period: July 1 to June 30

**11. Water Sales**

The District recognizes water services charges based on a two month cycle billings rendered to the customers each month.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued**

**12. Net Position**

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

**(2) Cash and Investments**

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

|  | <b>6/1/2016</b> | <b>6/30/2015</b> |
|--|-----------------|------------------|
| Cash and cash equivalents              | \$ 228,526      | 70,496           |
| Cash and cash equivalents – restricted | 55,681          | 58,289           |
| Total cash and investments             | \$ 284,207      | 128,785          |

Cash and cash equivalents as of June 30, consist of the following:

|                                    | <b>6/1/2016</b> | <b>6/30/2015</b> |
|------------------------------------|-----------------|------------------|
| Cash on hand                       | \$ 250          | 250              |
| Deposits held with County Treasury | 283,957         | 128,535          |
| Total cash and investments         | \$ 284,207      | 128,785          |

***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 and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 unit). 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. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(2) Cash and Investments, continued**

*Custodial Credit Risk, continued*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

*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 change in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

*Credit Risk*

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.

**(3) Capital assets**

Changes in capital assets for the eleven month period ended June 1, 2016, were as follows:

|                                | <b>Balance<br/>6/30/2015</b> | <b>Additions</b> | <b>Deletions/<br/>Transfers</b> | <b>Balance<br/>6/1/2016</b> |
|--------------------------------|------------------------------|------------------|---------------------------------|-----------------------------|
| Non-depreciable assets:        |                              |                  |                                 |                             |
| Land                           | \$ 34,820                    | -                | -                               | 34,820                      |
| Total non-depreciable assets   | 34,820                       | -                | -                               | 34,820                      |
| Depreciable assets:            |                              |                  |                                 |                             |
| Building and structures        | 3,766,240                    | -                | -                               | 3,766,240                   |
| Vehicles and equipment         | 79,536                       | 7,366            | -                               | 86,902                      |
| Total depreciable assets       | 3,845,776                    | 7,366            | -                               | 3,853,142                   |
| Accumulated depreciation:      |                              |                  |                                 |                             |
| Building and structures        | (2,725,326)                  | (87,501)         | -                               | (2,812,827)                 |
| Vehicles and equipment         | (71,660)                     | (2,014)          | -                               | (73,674)                    |
| Total accumulated depreciation | (2,796,986)                  | (89,515)         | -                               | (2,886,501)                 |
| Total depreciable assets, net  | 1,048,790                    | (82,149)         | -                               | 966,641                     |
| Total capital assets, net      | \$ 1,083,610                 | (82,149)         | -                               | 1,001,461                   |

As of June 1, 2016, major capital assets additions include purchase of a used truck in the amount of \$7,366.



**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(3) Capital assets, continued**

Changes in capital assets for 2015, were as follows:

|                                | <b>Balance<br/>6/30/2014</b> | <b>Additions</b> | <b>Deletions/<br/>Transfers</b> | <b>Balance<br/>6/30/2015</b> |
|--------------------------------|------------------------------|------------------|---------------------------------|------------------------------|
| Non-depreciable assets:        |                              |                  |                                 |                              |
| Land                           | \$ 34,820                    | -                | -                               | 34,820                       |
| Construction-in process        | 63,389                       | -                | (63,389)                        | -                            |
| Total non-depreciable assets   | 98,209                       | -                | (63,389)                        | 34,820                       |
| Depreciable assets:            |                              |                  |                                 |                              |
| Building and structures        | 3,665,508                    | 133,225          | (32,493)                        | 3,766,240                    |
| Vehicles and equipment         | 79,536                       | -                | -                               | 79,536                       |
| Total depreciable assets       | 3,745,044                    | 133,225          | (32,493)                        | 3,845,776                    |
| Accumulated depreciation:      |                              |                  |                                 |                              |
| Building and structures        | (2,673,632)                  | (84,187)         | 32,493                          | (2,725,326)                  |
| Vehicles and equipment         | (70,997)                     | (663)            | -                               | (71,660)                     |
| Total accumulated depreciation | (2,744,629)                  | (84,850)         | 32,493                          | (2,796,986)                  |
| Total depreciable assets, net  | 1,000,415                    | 48,375           | -                               | 1,048,790                    |
| Total capital assets, net      | \$ 1,098,624                 | 48,375           | (63,389)                        | 1,083,610                    |

Increase in 2015 to capital assets is primarily due to additions to building and structures in the amount of \$133,225.

**(4) Long-Term Debt**

Changes in long-term debt for the eleven month period ended June 1, 2016, are as follows:

|                                      | <b>Balance<br/>6/30/2015</b> | <b>Additions</b> | <b>Payments</b> | <b>Balance<br/>6/1/2016</b> |
|--------------------------------------|------------------------------|------------------|-----------------|-----------------------------|
| Loans payable:                       |                              |                  |                 |                             |
| DWR Contract                         | \$ 6,560                     | -                | (6,560)         | -                           |
| San Lorenzo Valley Water District    | 9,677                        | -                | (9,677)         | -                           |
| Total loans payable                  | 16,237                       | -                | (16,237)        | -                           |
| Bonds payable                        |                              |                  |                 |                             |
| Water Bond of 1964 - Third Division  | 130,000                      | -                | (41,000)        | 89,000                      |
| Water Bond of 1964 - Second Division | 16,000                       | -                | (8,000)         | 8,000                       |
| Water Bond of 1964 - Fourth Division | 43,000                       | -                | (14,000)        | 29,000                      |
| Total bonds payable                  | 189,000                      | -                | (63,000)        | 126,000                     |
| Total long-term debt payable         | 205,237                      | -                | (79,237)        | 126,000                     |
| Less: current portion                | (79,237)                     |                  |                 | (65,000)                    |
| Long-term portion                    | \$ 126,000                   |                  |                 | 61,000                      |

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(4) Long-Term Debt, continued**

Changes in long-term debt for the year ended June 30, are as follows:

|                                      | <u>Balance</u><br><u>6/30/2014</u> | <u>Additions</u> | <u>Payments</u>  | <u>Balance</u><br><u>6/30/2015</u> |
|--------------------------------------|------------------------------------|------------------|------------------|------------------------------------|
| Loans payable:                       |                                    |                  |                  |                                    |
| DWR Contract                         | \$ 18,388                          | -                | (11,828)         | 6,560                              |
| San Lorenzo Valley Water District    | <u>66,738</u>                      | <u>-</u>         | <u>(57,061)</u>  | <u>9,677</u>                       |
| Total loans payable                  | <u>85,126</u>                      | <u>-</u>         | <u>(68,889)</u>  | <u>16,237</u>                      |
| Bonds payable                        |                                    |                  |                  |                                    |
| Water Bond of 1964 - Third Division  | 169,000                            | -                | (39,000)         | 130,000                            |
| Water Bond of 1964 - Second Division | 23,500                             | -                | (7,500)          | 16,000                             |
| Water Bond of 1964 - Fourth Division | <u>56,000</u>                      | <u>-</u>         | <u>(13,000)</u>  | <u>43,000</u>                      |
| Total bonds payable                  | <u>248,500</u>                     | <u>-</u>         | <u>(59,500)</u>  | <u>189,000</u>                     |
| Total long-term debt payable         | 333,626                            | <u>-</u>         | <u>(128,389)</u> | 205,237                            |
| Less: current portion                | <u>(128,390)</u>                   |                  |                  | <u>(79,237)</u>                    |
| Long-term portion \$                 | <u>205,236</u>                     |                  |                  | <u>126,000</u>                     |

***DWR Contract***

During 1996, the District obtained from the State of California Department of Water Resources (DWR) \$178,500 loan to finance construction of a water treatment plant. The loan was granted under the Safe Drinking Water Bond Law of 1988 and is payable over 20 years together with an annual interest rate of 3.08%. Construction was completed during the fiscal year ended June 30, 1998, at a cost of \$616,108.

Terms of the loan require semi-annual principal and interest installment payments of \$6,153, which are paid from the Special Project reserve account. The minimum balance in the reserve account is required to equal to the sum of two semi-annual payments. The loan was paid off as of June 1, 2016.

***San Lorenzo Valley Water District***

On July 31, 2014, the District entered into an agreement with San Lorenzo Valley Water District (Transferee) for a loan of \$113,000 to pay the CalPERS side fund. The loan is payable over 2 years together with an annual interest rate of 3%.

Terms of the loan require monthly principal and interest payment of \$4,857, beginning the 1<sup>st</sup> day of September 2013. As security for the loan, the District agrees to take all action necessary to pledge the general property tax receipts, which the District receives from the County. The loan was paid off as of June 1, 2016.

***General Obligation Bonds***

Pursuant to an election held on June 9, 1964, the District was authorized to issue general obligation bonds in aggregate amount of \$1,500,000. The bonds were issued in four divisions as needed for construction purposes with the final issuance in May 1978. The bonds were issued in fully registered form in the name of the United States of America, Farmers Home Administration.

The bonds mature in installments of various amounts according to the following schedule:

|                                      |                           |
|--------------------------------------|---------------------------|
| Water Bond of 1964 - Third Division  | February 15 and August 15 |
| Water Bond of 1964 - Second Division | April 15 and October 15   |
| Water Bond of 1964 - Fourth Division | May 15 and November 1     |

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(4) Long-Term Debt, continued**

***General Obligation Bonds, continued***

***Water Bond of 1964 – Third Division***

Future annual debt service requirements are as follows:

| <u>Year</u>           | <u>Principal</u>        | <u>Interest</u>     | <u>Total</u>         |
|-----------------------|-------------------------|---------------------|----------------------|
| 2017                  | \$ 43,000               | 3,378               | 46,378               |
| 2018                  | <u>46,000</u>           | <u>1,141</u>        | <u>47,141</u>        |
| Total                 | 89,000                  | <u><u>4,519</u></u> | <u><u>93,519</u></u> |
| Less: current portion | <u>(43,000)</u>         |                     |                      |
| Long-term portion     | \$ <u><u>46,000</u></u> |                     |                      |

***Water Bond of 1964 – Second Division***

Future annual debt service requirements are as follows:

| <u>Year</u>           | <u>Principal</u>   | <u>Interest</u>   | <u>Total</u>        |
|-----------------------|--------------------|-------------------|---------------------|
| 2017                  | \$ 8,000           | 201               | 8,201               |
| Total                 | 8,000              | <u><u>201</u></u> | <u><u>8,201</u></u> |
| Less: current portion | <u>(8,000)</u>     |                   |                     |
| Long-term portion     | \$ <u><u>-</u></u> |                   |                     |

***Water Bond of 1964 – Fourth Division***

Future annual debt service requirements are as follows:

| <u>Year</u>           | <u>Principal</u>        | <u>Interest</u>     | <u>Total</u>         |
|-----------------------|-------------------------|---------------------|----------------------|
| 2017                  | \$ 14,000               | 1,450               | 15,450               |
| 2018                  | <u>15,000</u>           | <u>750</u>          | <u>15,750</u>        |
| Total                 | 29,000                  | <u><u>2,200</u></u> | <u><u>31,200</u></u> |
| Less: current portion | <u>(14,000)</u>         |                     |                      |
| Long-term portion     | \$ <u><u>15,000</u></u> |                     |                      |

**(5) Defined Benefit Pension Plan**

***Plan Description***

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(5) Defined Benefit Pension Plan, continued**

***Benefits provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits 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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.5% at 55 and 2.5% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provision and benefits in effect at June 1, 2016 are summarized as follows:

|   | <b>Miscellaneous Pool</b>      |                                   |
|---|--------------------------------|-----------------------------------|
|   | <b>Classic</b>                 | <b>PEPRA</b>                      |
| Hire date   | Prior to<br>January 1,<br>2013 | On or after<br>January 1,<br>2013 |
| Benefit formula                                   | 2.5% @ 55                      | 2.0% @ 62                         |
| Benefit vesting schedule                          | 5 years of service             |                                   |
| Benefit payments                                  | monthly for life               |                                   |
| Retirement age                                    | 50 - 55                        | 52 - 67                           |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5%                   | 1.0% to 2.5%                      |
| Required employee contribution rates              | 7.00%                          | 6.25%                             |
| Required employer contribution rates              | 8.377%                         | 6.555%                            |

***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal periods ended June 30, 2015 and the eleven month period ended June 1, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

|                          | <b>6/1/2016</b> | <b>6/30/2015</b> |
|--------------------------|-----------------|------------------|
| Contributions – employer | \$ <u>9,503</u> | <u>30,198</u>    |

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(5) Defined Benefit Pension Plan, continued**

*Net Pension Liability*

As of the fiscal periods ended June 30, 2015 and the eleven month period ended June 1, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

|  | <u>6/1/2016</u>   | <u>6/30/2015</u> |
|--|-------------------|------------------|
| Proportionate share of net pension liability | \$ <u>107,880</u> | <u>109,045</u>   |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and 2014 (the measurement dates), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 (the valuation dates), rolled forward to June 30, 2015 and 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2015 and 2014 were as follows:

|                            | <u>Miscellaneous Plan</u> |
|----------------------------|---------------------------|
| Proportion – June 30, 2013 | 0.00314%                  |
| Decrease in proportion     | <u>-0.00139%</u>          |
| Proportion – June 30, 2014 | 0.00175%                  |
| Decrease in proportion     | <u>-0.00018%</u>          |
| Proportion – June 30, 2015 | <u>0.00157%</u>           |

*Deferred Pension Outflows (Inflows) of Resources*

For the fiscal periods ended June 30, 2015 and the eleven month period ended June 1, 2016, the District recognized pension credit of \$10,201 and \$85,448, respectively.

At June 1, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Fiscal Year</u> |    | <u>Deferred</u>     |
|--------------------|----|---------------------|
| <u>Ending</u>      |    | <u>Outflows/</u>    |
| <u>June 30:</u>    |    | <u>(Inflows) of</u> |
|                    |    | <u>Resources</u>    |
| 2017               | \$ | (4,634)             |
| 2018               |    | (5,070)             |
| 2019               |    | (6,059)             |
| 2020               |    | 5,640               |

For the fiscal periods ended June 30, 2015 and the eleven month period ended June 1, 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$9,503 and \$6,005 will be recognized as a reduction of the net pension liability in the fiscal periods ended June 1, 2016 and June 30, 2017, respectively.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(5) Defined Benefit Pension Plan, continued**

*Deferred Pension Outflows (Inflows) of Resources, continued*

At June 1, 2016 and June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u>   | <u>6/1/2016</u>                               |  | <u>6/30/2015</u>                              |  |
|--|---|--|---|--|
|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
| Pension contributions subsequent to measurement date                       | \$ 6,005                                      | -  | 9,503   | -  |
| Differences between actual and expected experience                         | 738   | -  | -   | -  |
| Differences in actual contribution and proportionate share of contribution | 11,011  | -  | -   | -  |
| Changes in assumptions   | -   | (6,985)                                      | -   | -  |
| Net differences between projected and actual earnings on plan investments  | -   | (3,502)                                      | -   | (34,745)                                     |
| Adjustment due to differences in proportions of net pension liability      | -   | (11,385)                                     | 6,083   | -  |
| Total  | <u>\$ 17,754</u>                              | <u>(21,872)</u>                              | <u>15,586</u>                                 | <u>(34,745)</u>                              |

**Actuarial Assumptions**

The total pension liability in the June 30, 2014 actuarial valuation report was determined using the following actuarial assumptions:

|                           |   |
|---------------------------|---|
| Valuation Date            | June 30, 2014   |
| Measurement Date          | June 30, 2015   |
| 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   |
| Retirement                | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007   |
| Mortality                 | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

\* The mortality table used on the previous page 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.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(5) Defined Benefit Pension Plan, continued**

***Discount Rate***

For the June 30, 2015 and 2014 valuation reports, the discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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% discount rate used is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

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% 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 confirmed the materiality threshold for the difference in the 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 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determine 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 calculates 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 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.

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(5) Defined Benefit Pension Plan, continued**

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.

| <u>Asset Class</u>            | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10*</u> | <u>Real Return Year 11+**</u> |
|-------------------------------|---------------------------------|--------------------------------|-------------------------------|
| 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)                        |
| Total                         | <u>100.0%</u>                   |                                |                               |

\* An expected inflation of 2.5% used for this period

\*\* An expected inflation of 3.0% used for this period

***Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate***

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate:

At June 1, 2016, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

|                                  | <u>Discount Rate - 1%<br/>6.65%</u> | <u>Current Discount Rate<br/>7.65%</u> | <u>Discount Rate + 1%<br/>8.65%</u> |
|----------------------------------|-------------------------------------|--|-------------------------------------|
| District's Net Pension Liability | \$ <u>172,169</u>                   | <u>107,880</u>                         | <u>45,273</u>                       |

At June 30, 2015, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

|                                  | <u>Discount Rate - 1%<br/>6.50%</u> | <u>Current Discount Rate<br/>7.50%</u> | <u>Discount Rate + 1%<br/>8.50%</u> |
|----------------------------------|-------------------------------------|--|-------------------------------------|
| District's Net Pension Liability | \$ <u>185,787</u>                   | <u>109,045</u>                         | <u>45,357</u>                       |

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in separately issued CALPERS financial reports. See pages 29 through 30 for the Required Supplementary Schedules.



**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(6) Transfer of Operations**

Under the Local Agency Formation Commission (LAFCO) Resolution No. 953-A, the District was dissolved and annexed by the San Lorenzo Valley Water District (Transferee). On June 1, 2016, the District transferred its assets, deferred outflows, liabilities, and deferred inflows to the Transferee and the Transferee's service area has been expanded to include the District's service area. The District's expenses totaled \$655,512, consisting of \$560,218 of operating expenses, \$5,779 of non-operating expenses and \$89,515 of depreciation expenses. The District's revenues totaled \$751,310, consisting of \$597,849 from water sales and \$138,653 from property tax revenues and \$14,808 from other net operating income.

The District transferred all of the following assets, deferred outflows, liabilities, deferred inflows, and net position to the Transferee on June 1, 2016:

|   |    |         | <u>Carrying<br/>Values</u> |
|---|----|---------|----------------------------|
| <b>Transferred Assets (Net)</b>                       |    |         |                            |
| Cash & cash equivalents                               | \$ | 284,207 |                            |
| Accounts receivable                                   |    | 39,436  |                            |
| Materials and supplies inventory                      |    | 2,295   |                            |
| Total current assets                                  |    |         | \$ 325,938                 |
| Capital assets - not being depreciated                |    | 34,820  |                            |
| Capital assets - being depreciated                    |    | 966,641 |                            |
| Total capital assets                                  |    |         | <u>1,001,461</u>           |
| <b>Total assets</b>                                   |    |         | <u>1,327,399</u>           |
| <b>Transferred Deferred Outflows of Resources</b>     |    |         |                            |
| Deferred pension outflows                             |    |         | <u>17,754</u>              |
| <b>Transferred Liabilities (Net)</b>                  |    |         |                            |
| Accounts payable and accrued expense                  |    | 60,125  |                            |
| Unearned revenues - customer deposits                 |    | 18,250  |                            |
| Accrued interest payable                              |    | 1,834   |                            |
| Bonds payable   |    | 65,000  |                            |
| Total current liabilities                             |    |         | 145,209                    |
| Net pension liability                                 |    | 107,880 |                            |
| Bonds payable   |    | 61,000  |                            |
| Total non-current liabilities                         |    |         | <u>168,880</u>             |
| <b>Total liabilities</b>                              |    |         | <u>314,089</u>             |
| <b>Transferred Deferred Inflows of Resources</b>      |    |         |                            |
| Deferred pension inflows                              |    |         | <u>21,872</u>              |
| <b>Net Position of Transferred District Operation</b> |    |         |                            |
| Net investment in capital assets                      | \$ | 875,461 |                            |
| Restricted for debt service                           |    | 55,681  |                            |
| Unrestricted  |    | 78,050  |                            |
| <b>Total net position</b>                             |    |         | <u>\$ 1,009,192</u>        |

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(7) Prior Period Adjustment**

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a prior period adjustment, a decrease in net position of \$253,353 at July 1, 2014. The District recorded a prior period adjustment, an increase in net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contribution totaling \$30,198 at July 1, 2014.

In fiscal year 2015, the District determined that a liability in the amount of \$6,198 was erroneously recorded. As a result, the District has recorded a prior period adjustment to net position in the amount of \$6,198 at July 1, 2014.

The adjustment to net position is as follows:

|  |  |                          |
|--|--|--------------------------|
| Net position at June 30, 2014, as previously stated      |  | \$ <u>1,047,974</u>      |
| Effect of adjustment to record net pension liability     |  | (253,353)                |
| Effect of adjustment to record deferred pension outflows |  | 30,198                   |
| Effect of adjustment to liabilities                      |  | <u>6,198</u>             |
| Total adjustments  |  | <u>(216,957)</u>         |
| Net position at July 1, 2014, as restated                |  | \$ <u><u>831,017</u></u> |

**(8) Net Position**

Calculation of net position as of June 1, 2016 and June 30, 2015 were as follows:

|   | <u>6/1/2016</u>            | <u>6/30/2015</u>      |
|---|----------------------------|-----------------------|
| Net investment in capital assets                  |                            |                       |
| Capital assets, net                               | \$ 1,001,461               | 1,083,610             |
| Loans payable – current                           | -                          | (16,237)              |
| Loans payable – non-current                       | -                          | -                     |
| Bonds payable – current                           | (65,000)                   | (63,000)              |
| Bonds payable – non-current                       | <u>(61,000)</u>            | <u>(126,000)</u>      |
| Total net investment in capital assets            | <u>875,461</u>             | <u>878,373</u>        |
| Restricted net position:                          |                            |                       |
| Restricted for debt service                       | <u>55,681</u>              | <u>58,289</u>         |
| Total restricted net position                     | <u>55,681</u>              | <u>58,289</u>         |
| Unrestricted net position:                        |                            |                       |
| Non-spendable net position                        |                            |                       |
| Materials and supplies inventory                  | <u>2,295</u>               | <u>9,896</u>          |
| Total non-spendable net position                  | <u>2,295</u>               | <u>9,896</u>          |
| Spendable net position are designated as follows: |                            |                       |
| Unrestricted                                      | <u>75,755</u>              | <u>(33,164)</u>       |
| Total spendable net position                      | <u>75,755</u>              | <u>(33,164)</u>       |
| Total unrestricted net position                   | <u>78,050</u>              | <u>(23,268)</u>       |
| Total net position                                | \$ <u><u>1,009,192</u></u> | <u><u>913,394</u></u> |

**Lompico County Water District**  
**Notes to the Financial Statements, continued**  
**For the Periods Ended June 30, 2015 and the Eleven Month Period Ended June 1, 2016**

**(9) Commitments and Contingencies**

*Litigation*

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(10) Subsequent Event**

Events occurring after June 1, 2016 have been evaluated for possible adjustment to the financial statements or disclosure as of January 17, 2017, which is the date the financial statements were available to be issued.

**< Page Intentionally Left Blank >**

## **Required Supplementary Information**



**Lompico County Water District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**As of June 1, 2016**  
**Last Ten Years\***

| <u>Description</u>  | <b>Measurement Dates</b> |                 |
|---|--------------------------|-----------------|
|   | <u>6/30/15</u>           | <u>6/30/14</u>  |
| District's Proportion of the Net Pension Liability  | <u>0.00157%</u>          | <u>0.00175%</u> |
| District's Proportionate Share of the Net Pension Liability   | \$ <u>107,880</u>        | <u>109,045</u>  |
| District's Covered-Employee Payroll   | \$ <u>160,613</u>        | <u>127,566</u>  |
| District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll | <u>67.17%</u>            | <u>85.48%</u>   |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability                                | <u>84.88%</u>            | <u>85.06%</u>   |

**Notes to the Schedule of the District's Proportionate Share of Net Pension Liability**

***Changes in Benefit Terms*** – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after the June 30, 2014, valuation date.

***Changes of Assumptions*** – For the June 30, 2015, measurement date, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% percent to correct for an adjustment to exclude administrative expense.

\* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

**Lompico County Water District**  
**Schedule of Pension Plan Contributions**  
**As of June 1, 2016**  
**Last Ten Years\***

| <u>Description</u>   | <b>Measurement Dates</b> |                 |
|--|--------------------------|-----------------|
|  | <u>6/30/15</u>           | <u>6/30/14</u>  |
| Actuarially determined contribution                                  | \$ 20,948                | 11,323          |
| Contributions in relation to the actuarially determined contribution | <u>(6,005)</u>           | <u>(11,323)</u> |
| Contribution deficiency (excess)                                     | \$ <u>14,943</u>         | <u>-</u>        |
| District's covered payroll   | \$ <u>160,613</u>        | <u>127,566</u>  |
| Contribution's as a percentage of covered-employee payroll           | <u>3.74%</u>             | <u>8.88%</u>    |

**Notes to the Schedule of Pension Plan Contributions**

The actuarial methods and assumptions used to set the actuarially determined contributions from July 30, 2014 through June 30, 2015 (the measurement period), were derived from the June 30, 2014, funding valuation report.

There were no changes in methods or assumptions used to determine the legally required contributions, which are actuarially determined, from the June 30, 2011 to the June 30, 2012, funding valuation report.

\* The District has presented information for those years for which information is available until a full 10-year trend is compiled.



# **Report on Internal Controls and Compliance**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

## Fedak & Brown LLP

Certified Public Accountants

Cypress Office:  
6081 Orange Avenue  
Cypress, California 90630  
(657) 214-2307  
FAX (714) 527-9154

Riverside Office:  
4204 Riverwalk Pkwy. Ste. 390  
Riverside, California 92505  
(951) 977-9888

### **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  
Lompico County Water District  
Lompico, 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 the Lompico County Water District (District), as of and for the periods ended June 30, 2015 and the eleven month period ended June 1, 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 17, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audits 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 audits, 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*.

**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*, (continued)**

**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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

**Fedak & Brown LLP**

Cypress, California

January 17, 2017