CALAVERAS PUBLIC UTILITY DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2016

CALAVERAS PUBLIC UTILITY DISTRICT

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LARRY BAIN, CPA
AN ACCOUNTING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Calaveras Public Utility District
San Andreas, CA

We have audited the accompanying financial statements of the Calaveras Public Utility District as of and for the year ended June 30, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our Responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the business-type activities of the Calaveras Public Utility District as of June 30, 2016, and the changes in financial position and the results of its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Calaveras Public Utility District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information other than MD&A, as listed in the table of contents on pages 22 and 23, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other Information

We have also issued our report dated September 27, 2016 on our consideration of the District's internal control over financial reporting. That report should be read in conjunction with this report in considering our audit.

Larry Bain, CPA,
An Accounting Corporation
September 27, 2016

CALAVERAS PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets and Deferred Outflows of Resources

Current Assets	
Cash	$ 515,269
Investments	6,038,656
Accounts receivable	169,508
Interest receivable	6,414
Prepaid accounts	47,352
Deposits-ACWA	3,049
Total current assets	6,780,248
Noncurrent Assets	
Capital assets	
Nondepreciable capital assets	
Land	150,436
Construction in progress	54,483
Depreciable capital assets	
Building and improvements	310,884
Dam	100,771
Pumping equipment	1,312,921
Treatment	4,014,076
Transmission and distribution	6,837,278
General	78,199
Less accumulated depreciation	(6,020,252)
Total depreciable capital assets-net	6,633,877
Total capital assets (net of accumulated depreciation)	6,838,796
Total noncurrent assets	6,838,796
Total assets	13,619,044
Deferred Outflows of Resources	
Deferred pension	211,584
Total deferred outflows of resources	211,584
Total assets and deferred outflows of resources	$ 13,830,628

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities	
Accrued expenses	$ 298,887
OPEB-retiree health	10,371
Current portion-long term debt	19,997
Accrued interest payable	6,056
Total current liabilities	335,311
Noncurrent Liabilities	
Compensated absences	15,110
Notes payable	316,000
Net pension liability	794,436
Total long-term liabilities	1,125,546
Total liabilities	1,460,857
Deferred Inflows of Resources	
Deferred revenue (unearned)	25,000
Deferred pension	139,834
Total deferred inflows of resources	164,834
Net Position	
Net investment in capital assets	6,502,799
Unrestricted	5,702,138
Total Net Position	$ 12,204,937

The notes to financial statements are an integral part of this statements

CALAVERAS PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating revenue	
Water sales	$ 1,388,924
Hydro electric charges	63,382
Hookup fees	58,600
Total operating revenues	1,510,906
Operating expenses	
Source of supply	
Hydro expense	32,115
Pumping	116,468
Water treatment	115,609
Transmission and distribution	545,098
Administration and general	774,166
Depreciation	226,161
Total operating expenses	1,809,617
Operating income (loss)	(298,711)
Nonoperating revenue (expenses)	
Interest income	51,311
Rents and leases	18,422
Grant revenue	80,980
Other	10,940
County bond tax	1,738
County taxes	99,528
Interest expense	(14,558)
Nonoperating revenues (expenses)	248,361
Decrease in Net Position Before Extraordinary Item	(50,350)
Extraordinary Item-Fire Damage	(47,620)
Decrease in Net Position	(97,970)
Net Position, July 1	12,328,537
Prior Period Adjustment	(25,630)
Net Position, June 30	$ 12,204,937

The notes to financial statements are an integral part of this statements

CALAVERAS PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	$ 1,489,231
Cash payments to suppliers for goods and services	(628,438)
Cash payments to employees for services and benefits	(799,449)
Net cash provided by operating activities	61,344
Cash flows from noncapital and related financing activities:	
Proceeds from property tax and assessments	99,528
Proceeds from rents and leases	18,422
Extraordinary item	(47,620)
Proceeds from miscellaneous items	10,940
Net cash provided by noncapital financing activities	81,270
Cash flows from capital and related financing activities:	
Proceeds from county bond taxes	1,738
Grant revenue	80,980
Principal payments on long-term debt	(6,000)
Interest paid	(14,671)
Additions to capital assets	(414,529)
Net cash used in capital and related financing activities	(352,482)
Cash flows from investing activities:	
Interest received on investments	48,708
Net increase (decrease) in cash and cash equivalents	(161,160)
Cash and cash equivalents, beginning of year	6,715,085
Cash and cash equivalents, end of year	$ 6,553,925
Reconciliation of cash and cash equivalents to the balance sheet:	
Cash	$ 515,269
Investments	6,038,656
Cash and cash equivalents, June 30	$ 6,553,925
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	$ (298,711)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	226,161
Changes in assets and liabilities:	
Accounts receivable	(21,675)
Prepaid expenses	(2,671)
Deposits	2,971
Accrued expenses	140,129
Deferred revenue	-
OPEB liability	10,371
GASB 68-pension adjustments	6,441
Compensated absences	(1,672)
Net Cash Provided By Operating Activities	$ 61,344

The notes to financial statements are an integral part of this statements

Note 1: Summary of Significant Accounting Policies

The Calaveras Public Utility District operates under the Public Utility District Act, Division 7, of the Public Utilities Code, State of California. The Act permits formation of multipurpose government agencies to provide public services on a regional basis. In accordance with the Act, voters approved creating the Calaveras Public Utility District to provide domestic water to unincorporated communities of San Andreas and Mokelumne Hill. The District's governing body is a Board of Directors comprised of 5 members with 4 year staggered terms.

A. Reporting Entity

The District has defined its reporting entity in accordance with U.S. generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with GASB.

B. Proprietary Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund – An Enterprise fund is used to account for the District's Water treatment and distribution operations that is financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied. This is a basis of accounting that conforms to accounting principles generally accepted in the United States of America.

D. Prepaid Expenses

Accounts for prepaid liability insurance, prepaid healthcare insurance and prepaid department of water resources dam fees.

E. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes cash with Calaveras County and deposits with the State of California Local Agency Investment Fund (LAIF).

F. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

G. Use of Estimates in the Preparation of Financial Statements:

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

H. Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers estimated cost, which approximates fair value at the time of the District's acquisition, and is recorded as capital contributions when received.

Note 1: Summary of Significant Accounting Policies (Continued)

I. Estimated Insurance Liabilities

The District maintains an insurance policy with Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) that provides limits of liability of for general liability, auto and an additional umbrella policy. The District also maintains workers compensation insurance through ACWA/JPIA, with a pooled self-insurance.

J. Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net investment in capital assets-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, 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 "investment in capital assets."

K. Compensated Absences

Compensated absences represent the vested portion of accumulated vacation. In accordance with GASB 16, the liability for accumulated leave includes all salary - related payments that are directly and incrementally connected with leave payments to employees.

L. Property Taxes

The District receives property taxes from Calaveras County, which has been assigned the responsibility for assessment, collections, and apportionment of property taxes for all taxing jurisdictions within the County. Secured property taxes are levied on January 1 for the following fiscal year and on which date it becomes a lien on real property. Secured property taxes are due in two installments on November 1 and February 1 and are delinquent after

Note 1: Summary of Significant Accounting Policies (Continued)

L. Property Taxes (Continued)

December 10 and April 10, respectively, for the secured roll. Based on a policy by the County called the Teeter Plan, 100% of the allocated taxes are transmitted by the County to the District, eliminating the need for an allowance for uncollectible taxes. The County, in return, receives all penalties and interest. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid by August 31. Property tax revenues are recognized in the fiscal year they are received.

M. Capital Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available. Capital assets include land, buildings, water system, equipment, office furniture and vehicles. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded on the straight-line basis over the useful life of the assets as follows:

Assets	Useful Life
Building and improvements	20-50 years
Equipment and Infrastructure	5-100 years

N. 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 additions to/deductions 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.

Note 2: Cash and Investments

Cash and investments are reported on the balance sheet as follows:

Cash and investments	$	6,553,925
Total cash and investments	$	6,553,925

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

Checking	$	515,019
Petty cash		250
Certificates of deposit		1,043,496
US Treasuries		250,005
LAIF		4,745,155
Total cash and investments	$	6,553,925

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

The table below identifies the **investment types** that are authorized for the Calaveras Public Utility District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk, credit risk** and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	None	None
U.S. treasury obligations	5 years	None	None
State of California obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable CDs	5 years	30%	None
Repurchase agreements	1 years	None	None
Reverse repurchase agreements	92 days	20%	None
Medium term notes	5 years	30%	None
Mutual/money market funds	5 years *	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	15%
Time deposits	5 Years	None	None
Local Agency Investment Fund (LAIF)	5 years *	None	None

* The five year maximum maturity can be extended by the Board of Directors. Also, the maximum maturity can be extended if the funds are reserved for bond, COP or note payments to coincide with the required repayments.

Note 2: Cash and Investments (Continued)

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

		Remaining Maturity (in Months)	
		12 Months	13-48
Investment Type	Totals	or Less	Months
State Investment Pool*	$ 4,995,160	$ 4,745,155	$ 250,005
Totals	$ 4,995,160	$ 4,745,155	$ 250,005

*Not subject to categorization

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles are recognized in a three-tired hierarchy. The District investments are as follows:

Level 1: Investments reflect prices quoted in active markets

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. 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 deposit or will not be able to recover collateral securities that are in the possession of an outside party. 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 of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured 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 government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2016, the District's deposit balance was $1,808,520 and the carrying amount was $1,827,924. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, $750,000 was covered by the

Federal Depository Insurance and the remainder was covered by collateral held in the pledging bank's trust department in the District's name or by the terms.

Note 2: Cash and Investments (Continued)

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates $75.37 billion. Of the $75.37 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.08% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

Note 3: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance 7/1/2015	Additions	Retirements	Balance 6/30/2016
Capital assets not being depreciated				
Land	$ 150,436	$ -	$ -	$ 150,436
Construction in progress	21,117	33,366		54,483
Total capital assets, not being depreciated	171,553	33,366	-	204,919
Capital assets, being depreciated				
Buildings	310,884			310,884
Dam	100,771			100,771
Pumping plant	1,312,921			1,312,921
Treatment	3,715,658	298,418		4,014,076
Transmission and distribution	6,754,533	82,745		6,837,278
General plant & administration	78,199			78,199
Total capital assets, being depreciated	12,272,966	381,163	-	12,654,129
Less accumulated depreciation:	(5,794,091)	(226,161)	-	(6,020,252)
Total capital assets, being depreciated, net	6,478,875	155,002	-	6,633,877
Total capital assets, net	$ 6,650,428	$ 188,368	$ -	$ 6,838,796

Note 4: Long-Term Liabilities

Long-term liabilities consisted of the following at June 30, 2016:

	Balance 7/1/2015	Additions	Retirements	Balance 6/30/2016	Due Within One Year
Compensated absences	$ 29,778	$ 26,073	$ (25,994)	$ 29,857	$ 12,997
Net pension liability	598,151	196,285		794,436	
2001 USDA loan	329,000	-	(6,000)	323,000	7,000
Total	$ 956,929	$ 222,358	$ (31,994)	$ 1,147,293	$ 19,997

A. **Compensated Absences**

District employees accumulate earned but unused vacation benefits that can be converted to cash at termination or retirement from employment. The amount of the compensated absences at June 30, 2016 was $29,857.

B. **Loans Payable**

a) On August 22, 2001 the District entered into an agreement with the United States Department of Agriculture to finance $392,500 to assist with the construction of the Railroad Flat water plant. The term of the loan was 40 years at an interest rate of 4.5% annually.

The annual requirements to amortize the 2001 USDA Loan Payable as of June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 7,000	$ 14,378	$ 21,378
2018	7,000	14,063	21,063
2019	7,000	13,748	20,748
2020	8,000	13,410	21,410
2021	8,000	13,050	21,050
2022-2026	46,000	59,400	105,400
2027-2031	58,000	47,700	105,700
2032-2036	72,000	33,165	105,165
2037-2041	90,000	13,875	103,875
2042	20,000	450	20,450
Total	$ 323,000	$ 223,240	$ 546,240

Note 5: <u>Defined Benefit Pension Cost-Sharing Employer Plan</u>

The District's Statement of Net Position for the year ended June 30, 2016 includes, for the second year, a net pension liability. This liability was placed on the books due to a change in accounting standards (GASB Statement No. 68) that went into effect for last fiscal year, but it does not represent a sudden deterioration in the District's actual financial condition. The liability has accumulated over time as the pension benefits were earned by District employees and adjusted for District contributions, actual benefit payments, and updated actuarial assumptions. Most local governments with defined benefit pension plans saw significant accounting adjustments last year as a result of the implementation of this new standard.

The net pension liability represents the District's obligation to fully fund the pensions of its current and prior employees based on the service they provided to the District over a number of prior years. In the past, accounting standards required that no liability be shown for this obligation, even though it did legally exist, as long as the District made its required contributions to the pension plan each year. This resulted in reporting pension expense each year that included both the cost of offering pension benefits to the District's current employees for services they performed that year as well as catch-up contributions related to prior year employee service. The new standard improves the accounting for annual pension expense because the recognition of the net pension liability eliminates the need to include catch-up contributions in current year pension expense. The pension expense recognized by the District each year will now be designed to capture only the cost of providing pension benefits to employees related to their service in the current year, with a few adjustments necessitated by varying investment returns and other conditions because actuarial results cannot predict future events with complete precision. As a result, the District's pension expense recognized under GASB 68 will generally be lower than what has previously been recognized.

A. General Information about the Pension Plans

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

Benefits Provided – CalPERS provides service retirement 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.

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

		Miscellaneous	
Hire date		Prior to January 1, 2013	On or after January 1, 2013
Benefit formula		2.7% @ 55	2% @ 62
Benefit vesting s chedule		5 years service	5 years service
Benefit payments		monthly for life	monthly for life
Retirement age		50-55	52 - 67
Monthly benefits , as a % of eligible		2.2% to 2.7%	1.0% to 2%
Required employee contribution rates		8%	6.25%
Required employer contribution rates		10.290%	6.25%

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 the July 1 following notice of a change in the rate. Funding contributions for the Plans are 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 year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-employer	$	80,006
Contributions-employee (paid by employer)	$	31,882

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate share of Net pension liability
Miscellanous Plan	$ 794,436

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 plans relative to the projected contributions of all participating employers, actuarially determined.

Note 5: <u>Defined Benefit Pension Cost-Sharing Employer Plan</u>

The District's proportionate share of the net pension liability as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.02420%
Proportion - June 30, 2015	0.02896%
Change - Increase (Decrease)	0.00475%

For the year ended June 30, 2016, the District recognized pension expense of $114,061. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,459	$ -
Changes in assumptions		(51,650)
Net difference between projected and actual earnings on pension plan investments		(25,893)
Changes in proportion and differences between District contributions and proportionate share of contributions	66,340	
District contributions subsequent to the measurement date	77,493	
Total	$ 149,292	$ (77,543)

$77,493 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

Measurement Period Ended June 30:	
2017	$ (5,291)
2018	(19,868)
2019	(13,678)
2020	33,093
Thereafter	-

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Assumptions

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by entry age of service
Investment Rate of Return	7.50%

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

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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 Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43
Inflation Sensitive	6%	0.45%	3.36
Private Equity	10%	6.83%	6.95
Real Estate	10%	4.50%	5.13
Infrastructure and Forestland	2%	4.50%	5.09
Liquidity	2%	-0.55%	(1.05)

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous	$ 1,332,307	$ 794,426	$ 350,342

Note 6: Deferred Compensation Plan

Employees of Calaveras Public Utility District may elect to participate in a deferred compensation plan, as defined in the Internal Revenue Code Section 457. The contributions to the plan are voluntary. All amounts of compensation deferred under the plans, all property and rights purchased with these amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employees or beneficiaries) solely the property and rights of the employees and their beneficiaries. No part of the principal or income of the trust shall revert to the employer or be used for or diverted for purposes other than for the exclusive benefit of participants and their beneficiaries. The district selected VALIC and FTJ as the trustees of the plan assets. The employee has the option to select either trustee.

Note 7: Post-Retirement Health Benefits

On June 1, 2004, the Board of Directors passed a resolution to establish health benefit vesting requirements for future retirees under public employees' medical and hospital care act, whereas an employee who is with Calaveras Public Utility District for 5 years or longer and who has met other vesting requirements as defined by Government Code 20079, shall receive up to a maximum 100% of the health benefit for the employee premium plus 90% of the additional premium required for enrolment of family members in selected plans. The total District expense on the pay as you go basis for postretirement health benefits in the 2015-16 fiscal year was $37,812. As of June 30, 2016, two retired employees were receiving postretirement health benefits.

Note 7: Post-Retirement Health Benefits

Plan Description. Calaveras Public Utility's (CPUD) Post-Retirement Healthcare Plan is a single-employer defined benefit healthcare plan administered by CalPERS. CalPERS provides medical insurance benefits only to eligible retirees and their eligible dependents. The District approved post retirement health insurance benefits for all of its employees based on employees as of June 30, 2004 under the Public Employees' Medical and Hospital Care Act (PEMHCA).

The retiree benefits for employees hired prior to June 4, 2004 are entitled to receive the same benefits as active employees noted above if they qualify for CALPERS retirement. Those hired after June 4, 2004 are entitled to receive medical only lifetime benefits with required service of 20 year and the plan paying 50% of premiums after 10 years of service and an additional 5% for each additional year of service with a maximum district contribution of 100%. The minimum age for receiving benefits is 50 and the District cap is the State contributions. The plan also provides coverage for eligible spouses. For employees who are eligible to participate in the plan the District will contribute the health benefit cost for the retiree and eligible spouse up to 100% of the PERS Choice plan. A retiree with less than the required years of service with the District will receive no benefit, unless they have previous employment qualifying them for CalPERS retirement, in which case they are eligible to receive the CalPERS minimum at the time of retirement. The CalPERS minimum is set by law. The retiree is on the same medical plan as the District's active employees, however monthly rates for coverage of covered active and retired employees are computed separately.

Funding Policy. The contribution requirement of plan members is established by the District's Board of Directors. The 2015-16 fiscal year actuarial determined contribution was calculated on amortized funding over a 30 year period using entry age normal cost. For the fiscal year ending June 30, 2016 the District contributed $73,166 towards the unfunded actuarial accrued liability (UAAL). The District chose CalPERS as trustee for the plan assets as of June 30, 2016. The District made the net contribution for fiscal year end June 30, 2016 directly to health insurance providers totaling $37,812. Plan members receiving benefits contribute a prorated percentage depending on years of service with the District.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to CPUD's Healthcare Plan:

Unreimbursed retiree premium payment made to plan provider	$	(37,812)
Contribution to OPEB trust		(73,166)
ARC for current fiscal year		121,172
Net interest on beginning OPEB and ARC adjustment		30
Increase in net OPEB obligation (asset)		10,224
Net OPEB obligation (asset) - beginning of year		147
Net OPEB obligation (asset) - end of year	$	10,371

Note 7: Post-Retirement Health Care Benefits (Continued)

The following is the three year disclosure of the District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation at the end of the fiscal years:

Fiscal Year End	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2014	74,337	100%	$ -
June 30, 2015	74,237	100%	-
June 30, 2016	121,172	92%	(10,224)

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) was $1,142,950 and the unfunded actuarial accrued liability (UAAL) for benefits was $713,854. As of June 30, 2016, the District's annual required contribution was unfunded by $10,371 and is recorded as a liability on the balance sheet. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress indicates whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2015, actuarial valuation, the entry age normal cost asset valuation method is used. The actuarial assumptions include an investment/discount rate of 7.28% based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The valuation assumes that 100% of all eligible retirees will actually participate in the retiree medical benefit. The annual healthcare premiums will increase between 5.5% and 6.1% per year.

Note 8: Prior Period Adjustment

Beginning net position was restated because of prior year adjustments related to Governmental Accounting Standards Board Statement 68 for defined benefit pension plans. The changes in the prior year net pension liability, deferred inflows and deferred outflows of resources resulted in a $25,630 reduction to beginning net position.

Note 9: Lease Income

The District derives a portion of its revenue from the rental of real property based on a fixed lease amount. All leases of the District are treated as operating leases for accounting purposes. Lease terms are for a period of five years. Tenant shall have the right to extend the leases for five additional five year terms. Because these are cancelable leases we do not present the operating revenue over the term of the lease.

Note 10: <u>Commitments and Contingent Liabilities</u>

In the normal course of business, the District can be a defendant in lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

Engineering and Other Significant Commitments

The District has ongoing commitments related to engineering and professional services.

CALAVERAS PUBLIC UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016

Last 10 Fiscal Years*

(Dollar amounts in thousands)

Actuarial Valuation Date	District's proportion of the net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
Miscellaneous First Tier Plan					
6/30/2014	0.02420%	$598,151	$356,336	167.86%	83.03%
6/30/2015	0.02896%	$794,436	$406,081	195.63%	78.27%

* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

CALAVERAS PUBLIC UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
JUNE 30, 2016

Last 10 Fiscal Years*
(Dollar amounts in thousands)

Actuarial Valuation Date	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	District's covered employee payroll	Contribution as a percentage of covered employee payroll
Miscellaneous First Tier Plan					
6/30/2014	$42,626	($42,626)	$0	$356,336	11.96%
6/30/2015	$80,005	($80,005)	$0	$406,081	19.70%

* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

LARRY BAIN, CPA
AN ACCOUNTING CORPORATION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors,

We have audited the financial statements of the Calaveras Public Utility District as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated September 27, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider findings 16-1, 16-2, 16-3, 16-4 and 16-5 in the schedule of findings following this report to be significant deficiencies in the District's internal control.

Calaveras Public Utility District's Response to Findings

The Calaveras Public Utility District's separate written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls over financial reporting and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the District's internal control over financial reporting accordingly this report is not suitable for any other purpose.

This communication is intended solely for the information and use of the Board of Directors, management, the Calaveras County Auditor Controller's Office and the Controller's Office of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Larry Bain, CPA
An Accounting Corporation
September 27, 2016

CALAVERAS PUBLIC UTILITY DISTRICT

SCHEDULE OF AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL FINDINGS

Significant Deficiencies Not Deemed Material Weaknesses

Finding 16-1-Financial Accounting Policies and Financial Reporting

During our audit we noted the District did not have a written financial and accounting policy/manual that included internal control procedures. The District should create the financial and accounting policies that demonstrate how transactions are processed from beginning to end. The policy should include the processes for internal controls that are designed to provide reasonable assurance that objectives related to effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations are met. This also should include documenting controls over processing transactions, authorizing transactions and for maintaining and safeguarding assets. We have noted this finding in prior audits.

Recommendation

We recommend the District create a written financial and accounting policy.

Finding 16-2-Segregation of Duties

We noted the District had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities occurring without being detected; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. We have noted this comment in previous audits.

Recommendation: We recommend segregating incompatible duties to the greatest extent possible.

Finding 16-3 (Prior Year Finding 15-4): During our testing we noted the District did not prepare a 2015 employee cafeteria plan benefit schedule in January 2015. This resulted in the employee receiving a lower benefit and a lower payment for the opt out amount.

Current Year Follow Up: The District corrected the 2015 benefit amount during the 2015/16 fiscal year and updated the benefits for the new 2016 schedule in January 2016.

Finding 16-4 (Prior Year Finding 15-5): During our testing of CalPERS pension expense we noted the District was paying the employee portion of the pension expense for an active PEPRA member. This type of employer contribution is prohibited under PEPRA rules.

Current Year Follow Up: This was corrected during the 2015/16 fiscal year and the active PEPRA member is now paying the employee portion of the pension expense.

Finding 16-5: During our testing of accounts payable we noted the District double paid the $14,022 retention owed to a vendor.

Recommendation: We recommend the District periodically review payments to all vendors to ensure they are not more than stipulated in the contract. We recommend the District obtain reimbursement from the vendor for the overpayment.