



***LAKE OROVILLE AREA
PUBLIC UTILITY DISTRICT***

**FINANCIAL STATEMENTS
TOGETHER WITH AUDITORS' REPORTS**

**For the years ended
June 30, 2012 and 2011**

**LAKE OROVILLE AREA
PUBLIC UTILITY DISTRICT**

Butte County, California

**FINANCIAL STATEMENTS
TOGETHER WITH AUDITORS' REPORT**
For the Years Ended June 30, 2012 and 2011

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
Butte County, California

BOARD OF DIRECTORS
JUNE 30, 2012

	<u>Term Expires</u>
President:	
John J. Kiely	December 2014
Vice-President:	
Dee G. Fairbanks	December 2012
Members:	
Jack J. Ball	December 2014
Steven C. Onken	December 2014
T. C. Dennis	December 2012

Virgil D. Long, District Manager
Cynthia M. Quigley, Secretary/Treasurer

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
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 June 30, 2012

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BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Oroville Area Public Utility District
Oroville, California 95965

We have audited the accompanying financial statements of the Lake Oroville Area Public Utility District (The District) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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 Districts*. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lake Oroville Area Public Utility District as of June 30, 2012 and 2011, and the respective change in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2012, 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, arrangements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 10 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.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Oroville Area Public Utility District's financial statements. The accompanying supplemental information on page 26 is presented for the purpose of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Davis Hammon & Co.

September 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Lake Oroville Area Public Utility District's financial performance provides an overview (Executive Summary) of the District's financial activities for the year ended June 30, 2012. It should be read in conjunction with the District's basic financial statements which begin on page 4. This annual financial report consists of two parts — Management's Discussion and Analysis, a format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34) and the Basic Financial Statements.

Basic Financial Statements

The District's basic **financial statements** include five components:

- Statement of Net Assets - Proprietary Fund Type
- Statement of Revenues, Expenses and Changes in Net Assets -Proprietary Fund Type
- Statement of Cash flows - Proprietary Fund Type
- Statement of Fiduciary Net Assets - Agency Fund
- Notes to the Financial Statements

The **Statement of Net Assets Proprietary Fund Type** includes all of the District's assets and liabilities, with the difference between the two reported as Net Assets. Net Assets are displayed in three categories:

- Invested in capital assets, net of related debt
- Restricted
- Unrestricted

This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The **Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund Type** presents information which shows how the District's equity changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the District's operations during the year and determines whether the District has recovered its costs through user fees and other charges.

The **Statement of Cash Flows Proprietary Fund Type** provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating Activities
- Non-Capital Financing Activities
- Capital and Related Financing Activities
- Investing Activities

MANAGEMENT'S DISCUSSION AND ANALYSIS

The **Statement of Fiduciary Net Assets - Agency Fund** includes all of the District's Villa Verona Assessment District assets and liabilities.

This statement differs from the statements of revenues, expenses and changes in equity by only accounting for transactions that result in cash receipts or cash disbursements.

The **Notes to the Financial Statements** provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

During the year ended June 30, 2012, the District's net assets decreased \$352,848 (3.6%). The District's operating revenues increased \$248,700 (33%) while operating expenses decreased \$12,089 (.7%).

Financial Analysis of the District

The District's total net assets decreased \$352,848 between fiscal years 2011 and 2012, from \$9.8 million to \$9.4 million. Equity invested in capital assets, net of related debt, decreased \$540,247 from \$8.3 million to \$7.7 million. Restricted net assets decreased \$109,754.

Lake Oroville Area Public Utility District's Net Assets (In Thousands of Dollars)

	<u>2012</u>	<u>2011</u>
Current and other assets	\$508	\$233
Restricted and noncurrent assets	1,505	1,613
Capital assets	12,320	12,925
Total Assets	<u>14,333</u>	<u>14,771</u>
Long-term debt	4,539	4,616
Other Liabilities	386	394
Total Liabilities	<u>4,925</u>	<u>5,010</u>
Net Assets:		
Invest in capital assets, net of debt	7,726	8,266
Restricted	1,296	1,406
Unrestricted	<u>386</u>	<u>89</u>
Total Net Assets	<u>\$9,408</u>	<u>\$9,761</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Assets - During the fiscal year 2012, 85% of the District's operating revenues came from sewer service charges. During the fiscal year 2011, 84% of the District's operating revenues came from sewer service charges.

The District's operating expenses decreased 0.7% to \$1,831,692 primarily due to a mid-year reduction in administration overhead costs.

The District's non-operating revenues, net of non-operating expenses, decreased 4.5% to \$478,447.

Lake Oroville Area Public Utility District's Changes in Equity (In Thousands of Dollars)

	<u>2012</u>	<u>2011</u>
Revenues:		
Charges for services	\$ 1166	\$924
Taxes	272	291
Interest	40	38
Loss on Abandonment of Equipment	<u>0</u>	<u>0</u>
Total Revenues	<u>1,478</u>	<u>1,253</u>
Expenses		
Administration and general	629	694
Sewage collection and services	573	530
Depreciation	<u>630</u>	<u>620</u>
Total Expenses	<u>1,832</u>	<u>1,843</u>
Change In Net Assets	<u>\$(353)</u>	<u>\$(590)</u>

Capital Assets

During the year ended June 30, 2012, the District decreased its net investment in capital assets by \$604,247 to a total of 12.3 million after accumulated depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake Oroville Area Public Utility District's Capital Assets Net of Accumulated Depreciation (In Thousands of Dollars)

	<u>2012</u>	<u>2011</u>
Land	\$107	\$107
Subsurface lines	7,903	8,205
Sewer collection facilities	2,130	2,219
General plant and administration facilities	1,712	1,938
Construction-in-progress	468	456
Total Capital Assets	<u>\$12,320</u>	<u>\$12,925</u>

Capital Debt

No additional debt was issued during the year. More detailed information about the District's capital debt is presented in Note 5 of the financial statements.

Economic Factors

The District incurred a \$831,295 operating loss during fiscal year 2012, and a \$1,092,084 loss in year 2011. These operating losses are offset by the funds received from non-operational revenues.

District Financial Management

This financial report is designed to provide our customers, taxpayers, investors and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Lake Oroville Area Public Utility District 1960 Elgin Street Oroville, California 95966-6613.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND TYPE
JUNE 30, 2012 AND 2011**

	<u>Enterprise Fund</u>	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 202,055	
Accounts receivable	165,113	\$ 77,215
Due from other related agency	14,984	15,000
Taxes receivable	35,100	36,775
Inventories	47,512	58,970
Prepaid expenses	41,466	44,110
Accrued interest	1,377	840
Total Current Assets	<u>507,607</u>	<u>232,910</u>
Restricted and Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	1,463,027	1,513,979
Accounts receivable		57,192
Investment in sewer treatment association	41,982	41,982
Capital assets (net of accumulated depreciation)	<u>12,320,531</u>	<u>12,924,778</u>
Total Restricted and Noncurrent Assets	<u>13,825,540</u>	<u>14,537,931</u>
Total Assets	<u>14,333,147</u>	<u>14,770,841</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and other current liabilities	30,861	24,514
Due to other fund	1,894	
Accrued compensated absences	26,807	48,499
Due to other related agency	154,929	154,697
Employee flexible spending	4,258	1,199
Amounts payable from restricted assets:		
Bond interest payable	99,795	101,185
Current portion - bonds payable	<u>67,000</u>	<u>64,000</u>
Total Current Liabilities	<u>385,544</u>	<u>394,094</u>
Long-Term Liabilities		
Accrued compensated absences	11,489	20,785
Bonds payable	<u>4,528,000</u>	<u>4,595,000</u>
Total Long-Term Liabilities	<u>4,539,489</u>	<u>4,615,785</u>
Total Liabilities	<u>4,925,033</u>	<u>5,009,879</u>
<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	7,725,531	8,265,778
Restricted	1,296,232	1,405,986
Unrestricted	<u>386,351</u>	<u>89,198</u>
Total Net Assets	<u>\$ 9,408,114</u>	<u>\$ 9,760,962</u>

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND TYPE
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>Enterprise Fund</u>	
	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Sewer service charges	\$ 853,665	\$ 630,940
Pumping charges	83,043	74,670
Connection fees	14,259	13
Other sales and services	4,435	1,109
Special Assessment - Kelly Ridge	44,995	44,965
Total Operating Revenues	<u>1,000,397</u>	<u>751,697</u>
Operating Expenses:		
Administration and general	629,279	693,523
Sewage collection and services	572,689	529,831
Depreciation	629,724	620,427
Total Operating Expenses	<u>1,831,692</u>	<u>1,843,781</u>
Net Operating Income (Loss)	<u>(831,295)</u>	<u>(1,092,084)</u>
Nonoperating Revenues (Expenses):		
Taxes	271,513	291,137
Interest	40,451	38,812
Capacity charges	43,913	6,634
RDA loan surcharges	352,614	350,800
Miscellaneous	2,064	1,237
SC-OR pipe patch grant	14,984	15,000
Prior year capital project costs abandoned	(47,502)	
Bond interest expense	(199,590)	(202,370)
Total Nonoperating Revenues (Expenses)	<u>478,447</u>	<u>501,250</u>
Change in net assets	(352,848)	(590,834)
Total Net Assets - July 1	<u>9,760,962</u>	<u>10,351,796</u>
Total Net Assets - June 30	<u>\$ 9,408,114</u>	<u>\$ 9,760,962</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>Enterprise Fund</u>	
	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 920,261	\$ 737,198
Other income	49,430	46,074
Cash paid to employees for services	(912,002)	(866,322)
Cash paid to suppliers	(295,320)	(340,467)
Net Cash Provided (Used) By Operating Activities	<u>(237,631)</u>	<u>(423,517)</u>
Cash Flows From Noncapital Financing Activities:		
Miscellaneous nonoperational receipts	17,064	1,237
Property taxes	273,188	304,832
Net Cash Provided (Used) By Noncapital Financing Activities	<u>290,252</u>	<u>306,069</u>
Cash Flows From Capital and Related Financing Activities:		
Additions to property, plant, and equipment	(72,979)	(374,322)
Capacity charges received	43,913	6,634
Principal paid on capital debt	(64,000)	(61,000)
Interest paid on capital debt	(200,980)	(203,695)
RDA loan surcharges	352,614	350,800
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>58,568</u>	<u>(281,583)</u>
Cash Flows From Investing Activities:		
Interest on investments	39,914	41,382
Net Cash Provided (Used) By Investing Activities	<u>39,914</u>	<u>41,382</u>
Net Increase (Decrease) in Cash	151,103	(357,649)
Cash Balance - July 1	1,513,979	1,871,628
Cash Balance - June 30	<u>\$ 1,665,082</u>	<u>\$ 1,513,979</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (831,295)	\$ (1,092,084)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	629,724	620,427
Change in assets and liabilities:		
(Increase) decrease in receivables	(30,706)	31,576
(Increase) decrease in inventories	11,458	13,841
(Increase) decrease in prepaid assets	2,644	(11,160)
Increase (decrease) in payables	(19,456)	13,883
Net Cash Provided (Used) By Operating Activities	<u>\$ (237,631)</u>	<u>\$ (423,517)</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2012 AND 2011**

	Villa Verona Assessment District Agency Fund	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 29,240	\$ 29,953
Due from other fund	1,894	
Assessments receivable - delinquent	833	2,435
Total Assets	<u>31,967</u>	<u>32,388</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Easements payable	2,703	2,703
Due to bondholders	29,264	29,685
Total Liabilities	<u>31,967</u>	<u>32,388</u>
<u>NET ASSETS</u>		
Unrestricted	-	-
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Oroville Area Public Utility District (District) is a California Public Utility District that was organized on June 27, 1938. It provides sewage collection and transmission services to residents of the Kelly Ridge and other eastern Oroville areas.

A. Definition of the Reporting Entity

The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement 39, include:

- The organization is legally separate (can sue and be sued in their own name).
- The District holds the corporate powers of the organization.
- The District appoints a majority of the organization's governing board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the District.
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the Lake Oroville Area Public Utility District has no component units.

B. Basis of Accounting and Financial Statement Presentation

The District accounts for its operations and activities as a utility enterprise fund. The enterprise fund is operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user service charges.

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the District are charges to customers for sales and services including operating charges collected through special assessments on certain property tax rolls. Operating expenses for the District include salaries and benefits, supplies and other services, and insurance premiums.

Revenues and expenses are recognized on the accrual basis. 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 actually take place.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Fiduciary Fund

Agency Fund - Agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Inventory

Inventories are valued at cost using the average cost method.

D. Use of Estimates

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

E. Cash, Cash Equivalents, and Investments

For the purposes of the statement of cash flows, the District's proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments at June 30, 2012 and 2011, are stated at fair value.

F. Restricted Assets

The District has presented restricted cash for amounts received from the District's capacity charge and RDA surcharge. These amounts have been classified as restricted assets on the statement of net assets because their use is limited by applicable bond or other covenant.

G. Interfund Receivables and Payables

The purpose of the interfund balance is to reflect the District's collections of Villa Verona special assessments that will be transferred to the Villa Verona bank account at a future date. The amounts due Villa Verona Special Assessment from the District were \$1,894 and \$0 for the years ended June 30, 2012 and 2011, respectively.

H. Bad Debts

It is the District's policy to collect past due accounts by adding such amounts to the County of Butte's property tax rolls. As such, it is management's opinion that past due accounts are, in all material respects, fully collectible, and no allowance for doubtful accounts has been recorded on the accompanying financial statements.

I. Capital Assets

Property and equipment with a life greater than one year are capitalized and stated at cost, except for portions acquired by contribution, which are reported at the agreed upon cost to the donee, which equates fair market value. Maintenance and repair costs are expensed as incurred unless they extend the asset's useful life. Depreciation is computed using the straight line method over asset estimated useful lives as presented below:

Subsurface lines	50 years
Sewage collection	10 - 50 years
General plant and administrative facilities	3 - 30 years

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets (continued)

Construction-in-progress – Costs associated with development stage projects are accumulated in the construction-in-progress account until the project is fully developed. Once the project is complete, the entire cost of the project is transferred to a capital asset account and depreciated over the estimated useful life.

J. Accrued Compensated Absences

All probationary and permanent employees of the District earn sick leave at a rate of one working day per month and can accrue an unlimited amount of hours. The District will buy back unused sick leave at a rate of one-half day for each whole day accrued. Said buy back is limited only to time over and above 30 days of accrued sick leave. No more than 12 days will be bought back in any given year unless employment is voluntarily terminated in which case all accrued sick leave over and above 30 days will be bought back at said one-half rate. Retiring employees of the District can accrue an unlimited amount of hours to be used toward the cost of personal health insurance plan upon retirement, or it may be converted to additional CalPERS service credits.

Vacation is based upon the length of service. The District will buy back accumulated vacation of an employee upon termination or retirement from the District.

NOTE 2 CASH AND INVESTMENTS

Cash and investments as of June 30, 2012 and 2011, are classified in the accompanying financial statements as follows:

	2012	2011
Statement of net assets		
Current Assets:		
Cash and cash equivalents	\$ 202,055	
Restricted Assets:		
Cash and cash equivalents	1,463,027	\$ 1,513,979
Total cash and cash equivalents	\$ 1,665,082	\$ 1,513,979
Cash and investments as of June 30, 2012 and 2011, consist of the following:		
Cash on hand	\$ 500	\$ 700
Deposits with financial institutions	1,083,598	924,115
LAIF	580,984	589,164
Total cash and cash equivalents	\$ 1,665,082	\$ 1,513,979

Investment Policies - The District may invest in the following types of investments:

- Passbook savings account demand deposits
- Money market accounts
- Certificates of deposit with commercial banks and/or savings and loan companies
- Local Agency Investment Fund (State Pool) demand deposits
- Mutual funds

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 2 CASH AND INVESTMENTS (continued)

The District has, in practice, limited deposits and investments to insured and/or collateralized demand deposit accounts, the State Treasurer's Local Agency Investment Fund (LAIF), and certificates of deposit. The District does not enter into reverse repurchase agreements.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization. The District does not hold direct investments, therefore, there is no concentration of credit risk.

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 do 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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. The amounts in excess of federal depository insurance limits were \$132,905 and \$147,869, respectively, for 2012 and 2011.

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 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 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).

Investment in State Investment Pool

The District is a voluntary participant in LAIF. LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1st and are payable in two installments, on December 10 and April 10. The District relies on the competency of the County of Butte for the billing, collection, and distribution of its share of property tax revenues.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 CAPITAL ASSETS

Construction-in-progress – The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balance at June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
District Office Expansion		\$ 3,767
Villa Verona Mainline	\$ 400,439	342,196
District Maps Update		31,298
State Line Phase III	67,459	65,931
Burbank Bypass		11,172
Hanging Tree Pump Station Upgrade		<u>1,265</u>
Total Construction-In-Progress	<u>\$ 467,898</u>	<u>\$ 455,629</u>

The following is a summary of changes in the District's property, plant, and equipment during the fiscal years ended June 30, 2012 and 2011:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Nondepreciable Capital Assets:				
Land	\$ 107,174			\$ 107,174
Construction-in-progress	<u>455,629</u>	\$ 72,979	\$ 60,710	<u>467,898</u>
Total Nondepreciable Capital Assets	<u>562,803</u>	<u>72,979</u>	<u>60,710</u>	<u>575,072</u>
Depreciable Capital Assets:				
Subsurface lines	12,753,352	13,208		12,766,560
Sewer collection facilities	4,477,270			4,477,270
General plant and administration facilities	<u>3,936,680</u>			<u>3,936,680</u>
Total Depreciable Assets	<u>21,167,302</u>	<u>13,208</u>	<u>-</u>	<u>21,180,510</u>
Less: Accumulated Depreciation:				
Subsurface lines	(4,548,202)	(315,445)		(4,863,647)
Sewer collection facilities	(2,258,117)	(88,697)		(2,346,814)
General plant and administration facilities	<u>(1,999,008)</u>	<u>(225,582)</u>		<u>(2,224,590)</u>
Total Accumulated Depreciation	<u>(8,805,327)</u>	<u>(629,724)</u>	<u>-</u>	<u>(9,435,051)</u>
Depreciable Capital Assets, Net	<u>12,361,975</u>	<u>(616,516)</u>	<u>-</u>	<u>11,745,459</u>
Total Capital Assets, Net	<u>\$ 12,924,778</u>	<u>\$ (543,537)</u>	<u>\$ 60,710</u>	<u>\$ 12,320,531</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 CAPITAL ASSETS (continued)

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Nondepreciable Capital Assets:				
Land	\$ 107,174			\$ 107,174
Construction-in-progress	329,181	\$ 263,590	\$ 137,142	455,629
Total Nondepreciable Capital Assets	436,355	263,590	137,142	562,803
Depreciable Capital Assets:				
Subsurface lines	12,616,210	137,142		12,753,352
Sewer collection facilities	4,477,270			4,477,270
General plant and administration facilities	3,825,948	110,732		3,936,680
Total Depreciable Assets	20,919,428	247,874	-	21,167,302
Less: Accumulated Depreciation:				
Subsurface lines	(4,233,662)	(314,540)		(4,548,202)
Sewer collection facilities	(2,169,421)	(88,696)		(2,258,117)
General plant and administration facilities	(1,781,817)	(217,191)		(1,999,008)
Total Accumulated Depreciation	(8,184,900)	(620,427)	-	(8,805,327)
Depreciable Capital Assets, Net	<u>12,734,528</u>	<u>(372,553)</u>	<u>-</u>	<u>12,361,975</u>
Total Capital Assets, Net	<u>\$ 13,170,883</u>	<u>\$ (108,963)</u>	<u>\$ 137,142</u>	<u>\$ 12,924,778</u>

NOTE 5 LONG-TERM DEBT

Changes in Long-Term Liabilities – Long-term liability activity, excluding the liability for compensated absences, for the years ended June 30, 2012 and 2011, was as follows:

	Balance 07/01/11	Additions	Deletions	Balance 06/30/12	Due Within One Year
Sewer Revenue Bonds - Series A	\$ 2,914,000	\$ -	\$ 40,000	\$ 2,874,000	\$ 42,000
Sewer Revenue Bonds - Series B	1,745,000		24,000	1,721,000	25,000
Total Long-Term Liabilities	<u>\$ 4,720,000</u>	<u>\$ -</u>	<u>\$ 64,000</u>	<u>\$ 4,595,000</u>	<u>\$ 67,000</u>
	Balance			Balance	
	07/01/10	Additions	Deletions	06/30/11	Due Within One Year
Sewer Revenue Bonds - Series A	\$ 2,952,000	\$ -	\$ 38,000	\$ 2,914,000	\$ 40,000
Sewer Revenue Bonds - Series B	1,768,000		23,000	1,745,000	24,000
Total Long-Term Liabilities	<u>\$ 4,720,000</u>	<u>\$ -</u>	<u>\$ 61,000</u>	<u>\$ 4,659,000</u>	<u>\$ 64,000</u>

Sewer Revenue Bonds – The District authorized the issuance of \$5,000,000 in Lake Oroville Area Public Utility District Sewer Revenue Bonds (Bonds). The Bonds were issued in two separate series. The Series A bonds (\$3,150,000) were issued in fiscal year 2004, and the Series B bonds (\$1,850,000) were issued in 2005. All the bonds were purchased by the USDA Rural Development through its Rural Utilities Service. The District has pledged all revenues of the enterprise fund to repay the Bonds, assessed a “RDA loan surcharge” for the purpose of making Bond principal and interest payments, and established required debt service reserves.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 5 LONG-TERM DEBT (continued)

On the Series A bonds, interest accrues at a rate of 4.25% per annum. "Series A" requires annual principal payments ranging from \$29,000 to \$163,000 each July 1 through the year 2043. Interest is paid semi-annually on January 1 and July 1. Total "Series A" bonds outstanding at June 30, 2012 and 2011, was \$2,874,000 and \$2,914,000, respectively.

On the Series B bonds, interest accrues at a rate of 4.50% per annum. "Series B" requires annual principal payments ranging from \$19,000 to \$100,000 each July 1 through 2043. Interest is paid semi-annually on January 1 and July 1. Total "Series B" bonds outstanding at June 30, 2012 and 2011, was \$1,721,000 and \$1,745,000, respectively.

Debt service requirements to maturity are presented on the following schedules:

Year Ended June 30,	Sewer Revenue Bonds Series A		Total
	Principal	Interest	
2013	\$ 42,000	\$ 122,145	\$ 164,145
2014	44,000	120,360	164,360
2015	46,000	118,490	164,490
2016	48,000	116,535	164,535
2017	50,000	114,495	164,495
2018-2022	286,000	538,602	824,602
2023-2027	356,000	472,175	828,175
2028-2032	443,000	389,427	832,427
2033-2037	551,000	286,492	837,492
2038-2042	688,000	158,313	846,313
2043-2044	320,000	20,528	340,528
	<u>\$ 2,874,000</u>	<u>\$ 2,457,562</u>	<u>\$ 5,331,562</u>

Year Ended June 30,	Sewer Revenue Bonds Series B		Total
	Principal	Interest	
2013	\$ 25,000	\$ 77,445	\$ 102,445
2014	26,000	76,320	102,320
2015	27,000	75,150	102,150
2016	29,000	73,935	102,935
2017	30,000	72,630	102,630
2018-2022	171,000	341,685	512,685
2023-2027	212,000	299,610	511,610
2028-2032	265,000	247,455	512,455
2033-2037	330,000	182,250	512,250
2038-2042	412,000	100,935	512,935
2043-2044	194,000	13,230	207,230
	<u>\$ 1,721,000</u>	<u>\$ 1,560,645</u>	<u>\$ 3,281,645</u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 6 SPECIAL ASSESSMENTS DISTRICT

The District acts as agent for the property owners of the Villa Verona Assessment District in collecting assessments, forwarding the collections to the assessment bond holders, and initiating foreclosure proceedings when required. The District is not obligated in any manner for the repayment of the special assessment debt. At June 30, 2012 and 2011, the Villa Verona Assessment District had \$240,000 and \$246,975, in outstanding bonds payable, respectively.

NOTE 7 DEFERRED COMPENSATION PLANS

The District offers its full-time employees three deferred compensation plans created in accordance with Internal Revenue Code 457. The plans are available to all District employees, permits them to defer a portion of their salary until future years. Employees may participate in all three plans, however, the District will only contribute to the PERS 457 Plan. This contribution amounts to 1% of the employee's salary only if the employee is matching 1% into the PERS 457 Plan. The PERS 457 Plan and District match began July 1, 2008. Amounts credited to deferred compensation are deposited in savings or other type of investment accounts with ING Life Insurance and Annuity Company, Nationwide, and PERS. For the years ended June 30, 2012 and 2011, the District made contributions of \$4,674 and \$4,742, respectively, to the PERS 457 Plan. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributed to those amounts, property, or rights are held in trust for the exclusive benefit of the plan participants and their beneficiaries. As required by GASB Statement 32, the District does not meet the criteria for inclusion of plan assets within its financial statements and has, therefore, excluded the plan assets from the accompanying financial statements.

The following is a summary of plan activity for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Market value - July 1	\$ 323,332	\$ 292,941
Employee contributions	30,567	32,223
Employer contributions	4,674	4,742
Plan earnings	7,981	47,122
Withdrawals/fees	<u>(143,592)</u>	<u>(53,696)</u>
Market value - June 30	<u>\$ 222,962</u>	<u>\$ 323,332</u>

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description. The District began its defined benefit pension plan on March 1, 2006. Public Employees' Retirement System of the State of California (PERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is a cost sharing, multiple-employer pension plan administered by the California Public Employees' Retirement System. Government Code Section 20000 of the State of California assigns the authority to establish and amend benefit provisions to the State legislature. The California Public Employees' Retirement System issues a publicly available financial report and required supplementary information for the Commission. That report may be obtained by writing to California Public Employees' Retirement System, Actuarial and Employer Services Division, P.O. Box 942709, Sacramento, CA 94339-2709 or by calling (888) 225-7377.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

Funding Policy. Plan members are required to contribute 8.0% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 24.617% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the state legislature.

Beginning July 1, 2008, the District and the employees agreed to the employer paying 100% of the 8% of the employees' required PERS contribution as allowed under *Internal Revenue Code* Section 414(h)(2).

Annual Pension Cost. For 2012, the District's annual pension cost was \$126,346, and the actual pension cost for the District's employees was \$47,446. The actual amount paid by the District was \$173,792, and the actual amount paid by the employees was \$0. These amounts were equal to the District's required and actual normal cost contributions. The required contribution for fiscal year 2011/12 was determined as a part of the June 30, 2009, actuarial valuation. The required employer contribution for 2012/2013 fiscal year is 24.878% of covered payroll, and the District has agreed to pay 100% of the employee required 8% contribution. The total District contribution rate for covered payroll will be 32.878% for 2012/2013 fiscal year.

Three-Year Trend Information for the District

Fiscal Year Ending	Annual Combined Pension Cost	Percentage Contributed
June 30, 2010	\$ 159,848	100%
June 30, 2011	\$ 173,591	100%
June 30, 2012	\$ 173,792	100%

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the District's policy to transfer the risks that may arise from these and other events through the purchase of commercial insurance. Over the past three years, no loss settlements have exceeded insurance coverage amounts.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 10 JOINT POWERS AGREEMENT

On March 29, 1973, the District, the City of Oroville, and the Thermalito Irrigation District entered into a Joint Exercise of Powers Agreement that reorganized its governing board and created an independent Agency known as the Sewerage Commission - Oroville Region (SC-OR). SC-OR was created to operate a sewerage treatment plant for the mutual advantage of the member entities. The District presently reports \$41,982 (its original contribution to SC-OR) as an investment. Two members (only one with voting powers) of SC-OR's Board of Commissioners are appointed by each member entity. SC-OR's operating and capital budgets are funded by user charges for sewerage treatment services provided to the residents of each member entity. Each member entity is responsible for billing, collecting, and remitting SC-OR's user charges applicable to their separate residents. At June 30, 2012 and 2011, the District held \$154,929 and \$154,697, respectively, in unremitted SC-OR service charges and \$0 and \$0, respectively, in unremitted facility charges that have been reported as a liability on the accompanying balance sheet as "due to other related agency." Additionally, SC-OR owed the District \$14,984 and \$15,000 at June 30, 2012 and 2011, respectively, for a pipe patch grant to minimize inflow and infiltration into the system that has been reported as an asset on the accompanying balance sheet as "due from other related agency."

SC-OR's separate financial statements may be obtained by contacting its administrative offices at:

P.O. Box 1350
Oroville, CA 95965

Noted below is a condensed audited balance sheet of SC-OR as of June 30, 2012, which is the latest report available:

	June 30, 2012
Cash	\$ 6,603,726
Other assets	11,982,007
Total Assets	\$ 18,585,733
Liabilities	\$ 421,938
Equity	18,163,795
Total Liabilities and Net Assets	\$ 18,585,733
Total Revenues	\$ 2,667,079
Total Expenses	(2,354,615)
Net Change In Equity	\$ 312,464

NOTE 11 RESTRICTED NET ASSETS

The District has restricted a portion of its net assets to segregate funds restricted for use by external sources as follows:

	2012	2011
Restricted for capacity capital outlay	\$ 595,987	\$ 790,375
Restricted for revenue bond debt service	140,819	140,819
Restricted for RDA loan surcharge	559,426	474,792
Total Restricted Net Assets	\$ 1,296,232	\$ 1,405,986

SUPPLEMENTAL INFORMATION

LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE I

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Sewer service and pumping charges	\$ 888,672	\$ 936,708	\$ 48,036
Permit and inspection fees	1,200		(1,200)
Connection fees	3,200	14,259	11,059
Special assessment - Kelly Ridge	45,000	44,995	(5)
Other services and unanticipated revenue	8,500	4,435	(4,065)
Sales	180		(180)
Total Operating Revenues	946,752	1,000,397	53,645
Operating Expenses:			
Salaries and wages	506,557	465,562	40,995
Employee benefits	423,176	387,056	36,120
Director's fees and benefits	31,980	28,397	3,583
Gasoline, oil, and fuel	36,000	29,476	6,524
Insurance	43,000	43,681	(681)
Memberships	3,150	42	3,108
Office expense	23,850	27,219	(3,369)
Professional services	38,200	80,725	(42,525)
Repairs and maintenance	53,050	69,478	(16,428)
Travel and meetings	2,700	3,102	(402)
Utilities	76,320	66,626	9,694
Miscellaneous and unanticipated expenses	12,120	604	11,516
Total Operating Expenses	1,250,103	1,201,968	48,135
Net Operating Income	(303,351)	(201,571)	101,780
Nonoperating Revenues (Expenses):			
Taxes	338,000	271,513	(66,487)
Interest income	13,800	40,451	26,651
Capacity charges	6,000	43,913	37,913
RDA loan surcharges	352,560	352,614	54
Miscellaneous and unanticipated revenues	51,000	17,048	(33,952)
Prior year capital project costs abandoned		(47,502)	(47,502)
Bond interest expense	(202,000)	(199,590)	2,410
Total Nonoperating Revenues (Expenses)	559,360	478,447	(80,913)
Other Budgeted Items:			
Capitalized Wages	(20,000)	(13,095)	6,905
Capitalized costs	(53,000)	(59,884)	(6,884)
Unanticipated expenses	(50,000)		50,000
Total Other Budgeted Items	(123,000)	(72,979)	50,021
Net Income (Loss) - Budget Basis	\$ 133,009	203,897	\$ 70,888
Net Assets - July 1, 2011		9,760,962	
Reconcile Budget to GAAP Basis:			
Capitalized employee costs		13,095	
Depreciation (not budgeted)		(629,724)	
Budgeted capital expenditures		59,884	
Net Assets - June 30, 2012		\$ 9,408,114	

COMPLIANCE SECTION

**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
Lake Oroville Area Public Utility District
Oroville, California

We have audited the basic financial statements of Lake Oroville Area Public Utility District, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The Management of Lake Oroville Area Public Utility District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lake Oroville Area Public Utility District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Oroville Area Public Utility District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake Oroville Area Public Utility 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 reasonable possibility that a material misstatement of the Lake Oroville Area Public Utility District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be material weaknesses.

2012-1 Reliance Upon Auditor For Preparation of Financial Statements and Footnote Disclosures

Observation: Management relies on the independent auditor to determine and prepare the proper presentation of the annual financial statements and related footnote disclosures.

Recommendation: We recommend that management consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or engaging an independent Certified Public Accounting firm to compile full disclosure financial statements.

2012-2 Reliance Upon Auditor For Maintaining Fixed Asset Schedule, Computing Depreciation Amounts, and Estimating Useful Lives.

Observation: Management relies on the independent auditor to maintain the District's fixed asset schedule and to compute and estimate depreciation amounts.

Recommendation: We recommend that management consider the cost benefit of either purchasing fixed asset software or designing an Excel spreadsheet to maintain the District's fixed assets and to compute depreciation and estimate useful lives for the District's fixed assets.

Compliance and Other Matters

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

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

Davis Hammon & Co.

September 20, 2012

**INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES APPLIED
TO APPROPRIATIONS LIMIT WORKSHEETS**

The Board of Directors of the
Lake Oroville Area Public Utility District
Oroville, California 95966

We have applied the procedures enumerated below to the Appropriations Limit calculations of the Lake Oroville Area Public Utility District for the year ended June 30, 2012. These procedures, which were agreed to by the Lake Oroville Area Public Utility District and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) were performed solely to assist the District in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

- 1) We obtained the District's completed alternate computational Appropriations Limit worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

- 2) Using the District's alternate computational worksheet, we added last year's limit to the total current year limit adjustments, as computed, for this year and compared the results to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

- 3) We compared the prior year appropriations limit presented in the alternate computational worksheets to the prior year appropriations limit adopted by the Board of Directors for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the Appropriations Limit alternate computational worksheets. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication *Article XIII B Appropriations Limitation Uniform Guidelines*.



This report is intended solely for the use of the Lake Oroville Area Public Utility District and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Davis Hammon & Co.

September 20, 2012



Davis W. Hammon, Jr., CPA
(1924-1989)

Stephen B. Norman, CPA • PFS
Stephen J. Herr, CPA
Kerry A. Webber, CPA
James L. Duckett, CPA

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE RELATING TO THE
SEWERAGE COMMISSION - OROVILLE REGION**

The Board of Directors of the
Lake Oroville Area Public Utility District
Oroville, California 95966

We have audited the basic financial statements of the Lake Oroville Area Public Utility District for the year ended June 30, 2012, and have issued our report thereon dated September 20, 2012. Our audit of such basic financial statements was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

The management of the Lake Oroville Area Public Utility District is responsible for the District's compliance with various resolutions and policies of the Sewerage Commission - Oroville Region (SC-OR) pertaining to the sewer regional facility charges and monthly sewer service charges. In connection with our audit referred to above, we selected and tested transactions and records applicable to new sewer connections and monthly sewer service charges to determine the District's compliance with SC-OR's resolutions and policies.

The results of our tests indicate that, with respect to the items tested, the Lake Oroville Area Public Utility District complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Board of Directors, management, and the Sewerage Commission - Oroville Region and is not intended to be and should not be used by anyone other than these specified parties.

Davis Hammon & Co.

September 20, 2012