

**LAKE OROVILLE AREA  
PUBLIC UTILITY DISTRICT**

Butte County, California

**FINANCIAL STATEMENTS  
TOGETHER WITH AUDITORS' REPORT**  
For the Years Ended June 30, 2011 and 2010

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
Butte County, California**

**BOARD OF DIRECTORS  
JUNE 30, 2011**

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

Alan G. Brown, District Manager  
Jan Rustenhoven, Secretary/Treasurer

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
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June 30, 2011

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## **BASIC FINANCIAL STATEMENTS**





**DAVIS HAMMON & CO.**  
Certified Public Accountants

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

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

We have audited the accompanying basic financial statements of the Lake Oroville Area Public Utility District (District) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These basic financial statements are the responsibility of District's management. Our responsibility is to express opinions 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 minimum audit requirements for California Special Districts, issued by the Office of the State Controller. 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 basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the Lake Oroville Area Public Utility District as of June 30, 2011 and 2010, and the respective change in financial position and its cash flows 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 October 20, 2011, on our consideration of the Lake Oroville Area Public Utility District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 in accordance with Government Auditing Standards and important for assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Davis Hammon & Co.*

October 20, 2011

## 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, 2011. 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, 2011, the District's net assets decreased \$590,834 (6%). The District's operating revenues increased \$1,027 (1%) while operating expenses increased \$114,358 (6%).

### Financial Analysis of the District

The District's total net assets decreased \$590,834 between fiscal years 2010 and 2011, from \$10.3 million to \$9.8 million. Equity invested in capital assets, net of related debt, decreased \$185,105 from \$8.4 million to \$8.2 million. Restricted net assets increased \$94,937.

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

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 233	\$ 722
Restricted and noncurrent assets	1,613	1,517
Capital assets	12,925	13,171
<b>Total Assets</b>	<u>14,771</u>	<u>15,410</u>
Long-term debt	4,616	4,674
Other Liabilities	394	384
<b>Total Liabilities</b>	<u>5,010</u>	<u>5,058</u>
<b>Net Assets:</b>		
Invest in capital assets, net of debt	8,266	8,451
Restricted	1,406	1,311
Unrestricted	89	590
<b>Total Net Assets</b>	<u>\$ 9,761</u>	<u>\$10,352</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Assets - During the fiscal year 2011, 84% of the District's operating revenues came from sewer service charges. During the fiscal year 2010, 82% of the District's operating revenues came from sewer service charges.

The District's operating expenses increased 6% to \$1,843,781 primarily due to increases in operating costs and regulatory costs.

The District's non-operating revenues, net of non-operating expenses, decreased 5% to \$501,250.

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

	<u>2011</u>	<u>2010</u>
Revenues:		
Charges for services	\$ 924	\$ 936
Taxes	291	297
Interest	<u>38</u>	<u>43</u>
Total Revenues	<u>1,253</u>	<u>1,276</u>
Expenses		
Administration and general	694	631
Sewage collection and services	529	493
Depreciation	<u>620</u>	<u>605</u>
Total Expenses	<u>1,843</u>	<u>1,729</u>
Change In Net Assets	<u>\$ (590)</u>	<u>\$ (453)</u>

### Capital Assets

During the year ended June 30, 2011, the District decreased its net investment in capital assets by \$245,000 to a total of 12.9 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>2011</u>	<u>2010</u>
Land	\$ 107	\$ 107
Subsurface lines	8,205	8,383
Sewer collection facilities	2,219	2,308
General plant and administration facilities	1,938	2,044
Construction-in-progress	456	329
Total Capital Assets	<u>\$12,925</u>	<u>\$13,171</u>

#### **Capital Debt**

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

#### **Economic Factors**

The District incurred a \$1,092,081 operating loss during fiscal year 2011, and a \$978,753 loss in year 2010. 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, 2011 AND 2010**

<u>ASSETS</u>	<u>Enterprise Fund</u>	
	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents		\$ 397,069
Accounts receivable	\$ 77,215	165,983
Due from other related agency	15,000	
Taxes receivable	36,775	50,470
Inventories	58,970	72,811
Prepaid expenses	44,110	32,950
Accrued interest	840	3,410
Total Current Assets	<u>232,910</u>	<u>722,693</u>
Restricted and Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	1,513,979	1,474,559
Accounts receivable	57,192	
Investment in sewer treatment association	41,982	41,982
Capital assets (net of accumulated depreciation)	12,924,778	13,170,883
Total Restricted and Noncurrent Assets	<u>14,537,931</u>	<u>14,687,424</u>
Total Assets	<u>14,770,841</u>	<u>15,410,117</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and other current liabilities	24,514	43,724
Due to other fund		1,567
Accrued compensated absences	48,499	35,277
Due to other related agency	154,697	138,985
Employee flexible spending	1,199	1,140
Amounts payable from restricted assets:		
Bond interest payable	101,185	102,510
Current portion - bonds payable	64,000	61,000
Total Current Liabilities	<u>394,094</u>	<u>384,203</u>
Long-Term Liabilities		
Accrued compensated absences	20,785	15,118
Bonds payable	4,595,000	4,659,000
Total Long-Term Liabilities	<u>4,615,785</u>	<u>4,674,118</u>
Total Liabilities	<u>5,009,879</u>	<u>5,058,321</u>
<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	8,265,778	8,450,883
Restricted	1,405,986	1,311,049
Unrestricted	89,198	589,864
Total Net Assets	<u>\$ 9,760,962</u>	<u>\$ 10,351,796</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, 2011 AND 2010**

	<u>Enterprise Fund</u>	
	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Sewer service charges	\$ 630,940	\$ 617,956
Pumping charges	74,670	71,763
Permit and inspection fees		758
Connection fees	13	14,760
Other sales and services	1,109	497
Special Assessment - Kelly Ridge	44,965	44,936
Total Operating Revenues	<u>751,697</u>	<u>750,670</u>
Operating Expenses:		
Administration and general	693,523	631,052
Sewage collection and services	529,831	493,337
Depreciation	620,427	605,034
Total Operating Expenses	<u>1,843,781</u>	<u>1,729,423</u>
Net Operating Income (Loss)	<u>(1,092,084)</u>	<u>(978,753)</u>
Nonoperating Revenues (Expenses):		
Annexation charges		196
Taxes	291,137	297,806
Interest	38,812	42,266
Capacity charges	6,634	38,530
RDA loan surcharges	350,800	349,022
Miscellaneous	1,237	2,292
SC-OR pipe patch grant	15,000	
Bond interest expense	(202,370)	(205,020)
Total Nonoperating Revenues (Expenses)	<u>501,250</u>	<u>525,092</u>
Change in net assets	(590,834)	(453,661)
Total Net Assets - July 1	<u>10,351,796</u>	<u>10,805,457</u>
Total Net Assets - June 30	<u><b>\$ 9,760,962</b></u>	<u><b>\$ 10,351,796</b></u>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>Enterprise Fund</u>	
	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 737,198	\$ 706,021
Other income	46,074	46,191
Cash paid to employees for services	(866,322)	(841,308)
Cash paid to suppliers	(340,467)	(277,677)
Net Cash Provided (Used) By Operating Activities	<u>(423,517)</u>	<u>(366,773)</u>
Cash Flows From Noncapital Financing Activities:		
Miscellaneous nonoperational receipts	1,237	2,488
Property taxes	304,832	286,349
Net Cash Provided (Used) By Noncapital Financing Activities	<u>306,069</u>	<u>288,837</u>
Cash Flows From Capital and Related Financing Activities:		
Additions to property, plant, and equipment	(374,322)	(516,417)
Capacity charges received	6,634	38,530
Principal paid on capital debt	(61,000)	(59,000)
Interest paid on capital debt	(203,695)	(206,301)
RDA loan surcharges	350,800	349,022
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(281,583)</u>	<u>(394,166)</u>
Cash Flows From Investing Activities:		
Interest on investments	41,382	44,471
Net Cash Provided (Used) By Investing Activities	<u>41,382</u>	<u>44,471</u>
Net Increase (Decrease) in Cash	(357,649)	(427,631)
Cash Balance - July 1	1,871,628	2,299,259
<b>Cash Balance - June 30</b>	<b><u>\$ 1,513,979</u></b>	<b><u>\$ 1,871,628</u></b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ (1,092,084)	\$ (978,753)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	620,427	605,034
Change in assets and liabilities:		
(Increase) decrease in receivables	31,576	1,542
(Increase) decrease in inventories	13,841	4,369
(Increase) decrease in prepaid assets	(11,160)	173
Increase (decrease) in payables	13,883	862
Net Cash Provided (Used) By Operating Activities	<u>\$ (423,517)</u>	<u>\$ (366,773)</u>



**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUND**  
**June 30, 2011 and 2010**

	<b>Villa Verona Assessment District</b>	
	<b><u>Agency Fund</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 29,953	\$ 28,989
Due from other fund		1,567
Assessments receivable - delinquent	2,435	2,595
<b>Total Assets</b>	<b><u>32,388</u></b>	<b><u>33,151</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Easements payable	2,703	2,703
Due to bondholders	29,685	30,051
<b>Total Liabilities</b>	<b><u>32,388</u></b>	<b><u>32,754</u></b>
<b><u>NET ASSETS</u></b>		
Unrestricted	<u>-</u>	<u>-</u>
<b>Total Net Assets</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

B. Basis of Accounting and Financial Statement Presentation (continued)

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.

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, 2011 and 2010, 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 \$0 and \$1,567 for the years ended June 30, 2011 and 2010, 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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*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, 2011 and 2010, are classified in the accompanying financial statements as follows:

	2011	2010
Statement of net assets		
Current Assets:		
Cash and cash equivalents		\$ 397,069
Restricted Assets:		
Cash and cash equivalents	\$ 1,513,979	1,474,559
Total cash and cash equivalents	\$ 1,513,979	\$ 1,871,628

Cash and investments as of June 30, 2011 and 2010, consist of the following:

Cash on hand	\$ 700	\$ 700
Deposits with financial institutions	924,115	1,026,247
LAIF	589,164	844,681
Total cash and cash equivalents	\$ 1,513,979	\$ 1,871,628

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 2 CASH AND INVESTMENTS (continued)**

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

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 \$147,869 and \$135,383, respectively, for 2011 and 2010.

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.

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**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.

**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, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
District Office Expansion	\$ 3,767	\$ 3,767
Villa Verona Mainline	342,196	228,772
District Maps Update	31,298	18,937
Highway 162 Crossing		29,593
State Line Phase III	65,931	36,940
Burbank Bypass	11,172	11,172
Hanging Tree Pump Station Upgrade	1,265	
Total Construction-In-Progress	<u>\$ 455,629</u>	<u>\$ 329,181</u>

The following is a summary of changes in the District's property, plant, and equipment during the fiscal years ended June 30, 2011 and 2010:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 107,174			\$ 107,174
Construction-in-progress	329,181	\$ 263,590	\$ 137,142	455,629
Total Nondepreciable Capital Assets	<u>436,355</u>	<u>263,590</u>	<u>137,142</u>	<u>562,803</u>
<b>Depreciable Capital Assets:</b>				
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	<u>20,919,428</u>	<u>247,874</u>	<u>-</u>	<u>21,167,302</u>
<b>Less: Accumulated Depreciation:</b>				
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	<u>(8,184,900)</u>	<u>(620,427)</u>	<u>-</u>	<u>(8,805,327)</u>
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>

**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 4 CAPITAL ASSETS (continued)**

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 107,174			\$ 107,174
Construction-in-progress	304,242	\$ 476,921	\$ 451,982	329,181
Total Nondepreciable Capital Assets	411,416	476,921	451,982	436,355
<b>Depreciable Capital Assets:</b>				
Subsurface lines	12,323,001	293,209		12,616,210
Sewer collection facilities	4,477,270			4,477,270
General plant and administration facilities	3,679,950	198,389	52,391	3,825,948
Total Depreciable Assets	20,480,221	491,598	52,391	20,919,428
<b>Less: Accumulated Depreciation:</b>				
Subsurface lines	(3,927,043)	(306,619)		(4,233,662)
Sewer collection facilities	(2,080,725)	(88,696)		(2,169,421)
General plant and administration facilities	(1,624,369)	(209,718)	52,270	(1,781,817)
Total Accumulated Depreciation	(7,632,137)	(605,033)	52,270	(8,184,900)
<b>Depreciable Capital Assets, Net</b>	<b>12,848,084</b>	<b>(113,435)</b>	<b>104,661</b>	<b>12,734,528</b>
<b>Total Capital Assets, Net</b>	<b>\$ 13,259,500</b>	<b>\$ 363,486</b>	<b>\$ 556,643</b>	<b>\$ 13,170,883</b>

**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, 2011 and 2010, was as follows:

	Balance 07/01/10	Additions	Deletions	Balance 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	\$ 4,720,000	\$ -	\$ 61,000	\$ 4,659,000	\$ 64,000
	Balance 07/01/09	Additions	Deletions	Balance 06/30/10	Due Within One Year
Sewer Revenue Bonds - Series A	\$ 2,989,000	\$ -	\$ 37,000	\$ 2,952,000	\$ 38,000
Sewer Revenue Bonds - Series B	1,790,000		22,000	1,768,000	23,000
Total Long-Term Liabilities	\$ 4,779,000	\$ -	\$ 59,000	\$ 4,720,000	\$ 61,000

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, 2011 AND 2010**

**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, 2011 and 2010, was \$2,914,000 and \$2,952,000, 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, 2011 and 2010, was \$1,745,000 and \$1,768,000, respectively.

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

Year Ended June 30,	Sewer Revenue Bonds Series A		Total
	Principal	Interest	
2012	\$ 40,000	\$ 123,845	\$ 163,845
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
2017-2021	274,000	550,248	824,248
2022-2026	340,000	486,625	826,625
2027-2031	424,000	407,447	831,447
2032-2036	528,000	308,933	836,933
2037-2041	658,000	186,277	844,277
2042-2043	470,000	40,503	510,503
	<u>\$ 2,914,000</u>	<u>\$ 2,581,408</u>	<u>\$ 5,495,408</u>

Year Ended June 30,	Sewer Revenue Bonds Series B		Total
	Principal	Interest	
2012	\$ 24,000	\$ 78,525	\$ 102,525
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
2017-2021	164,000	349,065	513,065
2022-2026	203,000	308,745	511,745
2027-2031	253,000	258,840	511,840
2032-2036	316,000	196,470	512,470
2037-2041	394,000	118,665	512,665
2042-2043	284,000	26,010	310,010
	<u>\$ 1,745,000</u>	<u>\$ 1,639,170</u>	<u>\$ 3,384,170</u>



**LAKE OROVILLE AREA PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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, 2011 and 2010, the Villa Verona Assessment District had \$246,975 and \$253,975, 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, 2011 and 2010, the District made contributions of \$4,742 and \$4,434, 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Market value - July 1	\$ 292,941	\$ 262,269
Employee contributions	32,223	12,613
Employer contributions	4,742	4,434
Plan earnings	47,122	22,132
Withdrawals/fees	(53,696)	(8,507)
Market value - June 30	<u>\$ 323,332</u>	<u>\$ 292,941</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, 2011 AND 2010**

**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 21.689% 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 2011, the District's annual pension cost was \$115,689, and the actual pension cost for the District's employees was \$57,902. The actual amount paid by the District was \$173,591, 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 2010/11 was determined as a part of the June 30, 2008, actuarial valuation. The required employer contribution for 2011/2012 fiscal year is 24.617% 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 32.617% for 2011/2012 fiscal year.

Three-Year Trend Information for the District

Fiscal Year Ending	Annual Combined Pension Cost	Percentage Contributed
June 30, 2009	\$ 139,362	100%
June 30, 2010	\$ 159,848	100%
June 30, 2011	\$ 173,591	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, 2011 AND 2010**

**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, 2011 and 2010, the District held \$154,697 and \$138,985, 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 \$15,000 and \$0 at June 30, 2011 and 2010, 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, 2011, which is the latest report available:

	June 30, 2011
Cash	\$ 6,911,390
Other assets	11,438,347
Total Assets	\$ 18,349,737
Liabilities	\$ 498,406
Equity	17,851,331
Total Liabilities and Net Assets	\$ 18,349,737
Total Revenues	\$ 2,129,784
Total Expenses	(2,188,116)
Net Change In Equity	\$ (58,332)

**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:

	2011	2010
Restricted for capacity capital outlay	\$ 790,375	\$ 779,869
Restricted for revenue bond debt service	140,819	140,819
Restricted for RDA loan surcharge	474,792	390,361
Total Restricted Net Assets	\$ 1,405,986	\$ 1,311,049

**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, 2011**

SCHEDULE I

	<b>Budget</b>	<b>Actual</b>	<b>(Unfavorable)</b>
Operating Revenues:			
Sewer service and pumping charges	\$ 1,349,055	\$ 1,322,282	\$ (26,773)
Permit and inspection fees	2,500		(2,500)
Connection fees	3,900	13	(3,887)
Special assessment - Kelly Ridge	41,000	44,965	3,965
Other services and unanticipated revenue	8,000	1,109	(6,891)
Sales	1,180		(1,180)
Total Operating Revenues	1,405,635	1,368,369	(37,266)
Operating Expenses:			
Salaries and wages (including capitalized costs)	506,752	536,662	(29,910)
Employee benefits (including capitalized costs)	371,820	355,990	15,830
Director's fees and benefits	30,000	29,375	625
Gasoline, oil, and fuel	15,000	23,574	(8,574)
Insurance	40,000	40,365	(365)
Memberships	1,800	2,986	(1,186)
Office expense	59,090	29,870	29,220
Operating supplies	3,600	14,157	(10,557)
Professional services	48,817	83,906	(35,089)
Repairs and maintenance	62,700	57,083	5,617
Travel and meetings	7,200	2,642	4,558
Utilities	77,220	68,293	8,927
SC-OR excess flow and sewer service charges	612,285	616,672	(4,387)
Miscellaneous and unanticipated expenses		15,267	(15,267)
Total Operating Expenses	1,836,284	1,876,842	(40,558)
Net Operating Income	(430,649)	(508,473)	(77,824)
Nonoperating Revenues (Expenses):			
Annexation charges	2,000		(2,000)
Taxes	339,200	291,137	(48,063)
Interest income	40,000	38,812	(1,188)
Capacity charges	13,268	6,634	(6,634)
RDA loan surcharges	337,506	350,800	13,294
Miscellaneous and unanticipated revenues	51,000	16,237	(34,763)
Bond interest expense	(200,000)	(202,370)	(2,370)
Total Nonoperating Revenues (Expenses)	582,974	501,250	(81,724)
Other Budgeted Items:			
Capitalized costs (without labor costs)	(283,700)	(337,506)	(53,806)
Unanticipated expenses	(50,000)		50,000
Total Other Budgeted Items	(333,700)	(337,506)	(3,806)
Net Income (Loss) - Budget Basis	\$ (181,375)	(344,729)	\$ (163,354)
Net Assets - July 1, 2010		10,351,796	
Reconcile Budget to GAAP Basis:			
Capitalized employee costs		36,816	
Depreciation (not budgeted)		(620,427)	
Budgeted capital expenditures		337,506	
Net Assets - June 30, 2011		\$ 9,760,962	

## COMPLIANCE SECTION

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

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

We have audited the basic financial statements of the Lake Oroville Area Public Utility District, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 2011. 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

In planning and performing our audit, we considered the 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 opinion 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.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Lake Oroville Area Public Utility District's financial statements will not be prevented, or detected and corrected on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lake Oroville Area Public Utility's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We consider the significant deficiencies described below to be material weaknesses.

2011-1 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.

2011-2 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 the Lake Oroville Area Public Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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.*

October 20, 2011



**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, 2011. 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.*

October 20, 2011



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, 2011, and have issued our report thereon dated October 20, 2011. 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.*

October 20, 2011