

CHESTER PUBLIC UTILITY DISTRICT

AUDIT REPORT

JUNE 30, 2015

**CHESTER PUBLIC UTILITY DISTRICT
AUDIT REPORT
JUNE 30, 2015**

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Independent Auditors' Report

Board of Directors
Chester Public Utility Company
Chester, CA

We have audited the accompanying financial statements of the business-type activities and each major fund of the Chester Public Utility District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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-1-

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Chester Public Utility District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for contributions made Subsequent to the Measurement*, an amendment of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a basic part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'SingletonAuman PC', with a stylized flourish at the end.

SingletonAuman PC
Susanville, CA
October 23, 2015

FINANCIAL SECTION

CHESTER PUBLIC UTILITY DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2015

INTRODUCTION

Chester Public Utility District's present operations include providing fire protection, ambulance, water, sanitation and street lighting services to residents of the District. The District also awards and administers the solid waste collection and recycle franchise within the District.

Our discussion and analysis of Chester Public Utility District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the District's financial statements, including notes and supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ The net position was \$8,470,084 at June 30, 2015. This was an overall decrease of \$871,249 from the prior year, with a \$1,105,876 decrease attributed to a prior period adjustment from implementing GASB 68, which recognizes net Pension Liability for the first time. More details are provided in the discussion under Pension Liabilities.
- ❑ Overall revenues were \$4,641,164, which were more than expenses of \$4,406,537 by \$234,624.
- ❑ The total cost of the District's programs increased by \$786,571 from last year. This change is due primarily to implementation of infrastructure maintenance and repair to essential services wells and storage systems; mandated compliance upgrades and infrastructure installations to the wastewater treatment facility. The district also added a permanent position to fire staff, a part time general manager position and had unexpected long term absences with fire staff that increased personnel costs. Increases in contracted fire protection services also had a significant effect on administrative expenses.
- ❑ Long-term liabilities increased by \$1,013,484 due to the implementation of GASB 68.
- ❑ Increases in contracted fire protection services are anticipated to continue for the 2015/16 fiscal year. An audit of tax rolls and adjustments to revenue is also anticipated to increase revenue slightly for FY 2015/16.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ❑ Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ❑ Fund financial statements focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - Proprietary funds statements provide information about the short and long-term financial information of the district that operate like businesses.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements. A comparison of the district's budget for the year is included.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position, the difference between the assets and liabilities, is one way to measure the District's financial health or position.

- ❑ Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- ❑ To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the District include business-type activities. All of the District's basic services are included here; water, sewer, street lighting, and fire services. Customer payments finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has one kind of fund:

Proprietary Funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide financial statements.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$8,470,084 at June 30, 2015. See Table 1.

The significant changes in Table 1 line items for fiscal year 2015 vs 2014 are:

- Accounts Receivable increased due to contracted fire protection services reimbursements overlapping fiscal years. The Affordable Care Act in general has increased the amount of ambulance billings owed. Receipt of grants (Ground Emergency Transport (GEMT)) occurred after the fiscal years it was awarded for. This alone accounts for approximately \$100,000 of accounts receivable.
- The implementation of GASB 68 in fiscal year 2015 resulted in the recognition of the \$1,013,484 Net Pension Liability, the \$1,105,876 prior period adjustment, and the recognition of \$200,300 in deferred outflows of resources and \$214,548 in deferred inflows of resources.

Table 1:
Net Position

	Business-Type Activities		Total Percentage Change
	2015	2014	2015-2014
Assets			
Cash and Investments	\$ 1,686,610	\$ 1,686,649	0.00%
Accounts Receivable	772,013	421,911	82.98%
Other Current Assets	12,882	54,270	-76.26%
Capital Assets, Net of Accumulated Depreciation	7,342,783	7,573,590	-3.05%
TOTAL ASSETS	\$ 9,814,288	\$ 9,736,420	
Deferred Outflows of Resources			
Deferred Recognition of Contributions to Pension Plan	\$ 200,300	\$ -	0.00%
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 246,068	\$ 203,759	20.76%
Cash Overdraft	-	144,749	100.00%
Utility Deposits	14,122	12,110	16.61%
Accrued Vacation	56,283	34,469	63.29%
Net Pension Liability	1,013,484		0.00%
TOTAL LIABILITIES	\$ 1,329,957	\$ 395,087	
Deferred Inflows of Resources			
Deferred Recognition of Pension Plan Earnings	214,548	-	0.00%
Net Position			
Invested in Capital Assets, Net of Related Debt	\$ 7,290,249	\$ 7,573,590	-3.74%
Unrestricted (deficit)	1,179,835	1,767,743	-33.26%
TOTAL NET POSITION	\$ 8,470,084	\$ 9,341,333	

Changes in Net Position

The District's total revenues were \$4,641,164. A majority of the revenue comes from Utility Sales and Fire Protection Services (90.9%). Revenues increased due to increases in tax revenue, contracted fire protection services and an increase in customer base for water supply services.

The total cost of all programs and services was \$4,406,537. Program expenses increased from the prior year due to; Installation of ground water monitoring wells and associated fees and additional sampling/testing required, upgrading our wastewater treatment equipment to remain in compliance with regulatory mandates, implementing a maintenance program for the district's water system at the water tanks and repairs to well #1. See Table 2 below.

Table 2:
Changes in Net Position

	<u>Business-Type Activities</u>		<u>Total Percentage</u>
	<u>2015</u>	<u>2014</u>	<u>Change</u>
			<u>2015-2014</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 4,220,550	\$ 3,189,260	32.34%
General Revenues			
Property Taxes	417,625	405,751	2.93%
Interest Income	2,989	9,588	-68.83%
TOTAL REVENUES	<u>4,641,164</u>	<u>3,604,599</u>	
Program Expenses:			
Fire	3,305,575	2,599,379	27.17%
Water	527,871	522,153	1.10%
Sanitation	573,091	498,434	14.98%
TOTAL EXPENSES	<u>4,406,537</u>	<u>3,619,966</u>	
CHANGE IN NET POSITION	<u>\$ 234,627</u>	<u>\$ (15,367)</u>	

Governmental Activities

Table 3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

The net cost of all business-type activities this year was \$185,987.

The amount that our taxpayers paid for these activities through property taxes was \$417,625

Most of the costs were paid directly from people who directly benefited from the programs: \$4,220,550.

Table 3
Net Cost of Business-Type Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Fire	\$ 3,305,575	\$ 2,599,379	\$ 13,946	\$ 322,785
Water	573,091	522,153	205,570	(12,749)
Sanitation	527,871	498,434	(33,529)	120,670
TOTAL	\$ 4,406,537	\$ 3,619,966	\$ 185,987	\$ 430,706

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The overall financial performance of the District as a whole is reflected in the communication between the Board of Directors and the District employees as they all work together in providing the best quality of service to its customers. As the District completed the year, its proprietary funds reported a fund balance of \$8,470,084, which is above last year's ending fund balance of \$8,235,457.

Budgetary Highlights

A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental section of the audited financial report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested \$7,342,784 in a broad range of capital assets, including land and the water and sanitation systems. During the year the District made additional investments.. See Table 4. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table 4
Capital Assets

	Business-Type Activities		Total Percentage Change
	2015	2014	2015-2014
Fire	\$ 1,786,701	\$ 1,760,172	1.51%
Water System	3,860,424	3,803,770	1.49%
Sanitation System	7,180,941	7,135,919	0.63%
Totals at Historical Cost	12,828,066	12,699,861	
Total Accumulated Depreciation	(5,485,282)	(5,126,271)	7.00%
NET CAPITAL ASSETS	\$ 7,342,784	\$ 7,573,590	

The District's fiscal year 15/16 budget projects capital spending of \$65,000 on vehicle and equipment expenses. Projected expenditures not budgeted will be provided by the Reserve (500) account.

Long-Term Debt

At year end, the District had no external debt, only an interfund note payable, as shown in Table 5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table 5
Long-Term Debt

	Governmental Activities		Total Percentage
	2015	2014	Change
			2015-2014
Interfund note payable	\$ 52,535	\$ 105,778	-50%
TOTAL LONG-TERM DEBT	\$ 52,535	\$ 105,778	

PENSION LIABILITIES, CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENTS:

The District implemented GASB Statement No. 68 for the year ended June 30, 2015. The Statement requires numerous new pension disclosures in the notes to the financial statements and two new schedules as required supplementary information. Also, for the first time, the District is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its proportionate shares of the collective pension expense, collective deferred outflows of resources and deferred inflows of resources related to pensions and collective net pension liability. More detailed information about the Districts pension plans and related expenses and liabilities is presented in the notes to the financial statements. The reporting of these new amounts on the financial statements, resulted in a prior period adjustment that decreased the net Position by \$1,105,876.

	June 30, 2014		June 30, 2014
	Net Position as		Net Position as
	Previously	GASB 68	Restated
	Stated	Restatement	
Governmental Activities			
Total Net Position	\$ 9,341,333	\$ (1,105,876)	\$ 8,235,457

Net Pension Liability

AS of June 30, 2015, the District reported net pension liabilities for the first time. Although a valid comparison to the amounts at June 30, 2014 is not available in the first year of implementation of GASB Statement No. 68, that disclosure will be available in subsequent years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- ❑ The continuing increases in fuel, power and regulatory costs along with the influence of inflation on all costs.
- ❑ The District will be in the planning phase for infrastructure improvements / repairs of the wastewater treatment system as mandated by our new wastewater permit issued by the Water Resources Board.
- ❑ The District is planning the replacement of a vehicle for the essential services division.
- ❑ The District is planning on maintenance / repair of well number 3.
- ❑ The District is planning on replacing the antiquated telephone system at the main office.
- ❑ The District is considering improving our water meter system with a radio meter system that will greatly increase efficiency and effectiveness of our delivery and billing system.
- ❑ The District is planning on replacing / repairing emergency services division safety equipment (Safety clothing and breathing apparatus).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

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Chester Public Utility District
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CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Business-Type Activities
	Fire, Water and Sanitation Funds
ASSETS	
Current Assets:	
Cash on Hand, in Banks, and in LAIF	\$ 1,686,610
Accounts Receivable	772,013
Prepaid Expenses	9,556
Other Current Assets	3,326
Total Current Assets	<u>2,471,505</u>
Noncurrent Assets:	
Property, Plant & Equipment, Net	<u>7,342,783</u>
Total Non-Current Assets	<u>7,342,783</u>
Total Assets	<u><u>\$ 9,814,288</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Recognition of Contributions to Pension Plan	<u><u>\$ 200,300</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Expenses	\$ 246,068
Utility Deposits	14,122
Compensated Absences Payable	56,283
Total Current Liabilities	<u>316,473</u>
Long Term Liabilities	
Net Pension Liability	<u>1,013,484</u>
Total Long Term Liabilities	<u>1,013,484</u>
Total Liabilities	<u><u>\$ 1,329,957</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Recognition of Pension Plan Earnings	<u><u>\$ 214,548</u></u>
NET POSITION	
Net Investment in Capital Assets	\$ 7,290,249
Unrestricted	1,179,835
Total Net Position	<u><u>8,470,084</u></u>

The accompanying notes are an integral part of this statement.

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2015

	Expenses	Program Revenue Charges For Services	Net (Expense) Revenue and Changes in Net Assets
<u>Business Type Activities</u>			
Fire	\$ 3,305,575	\$ 3,291,629	\$ (13,946)
Sanitation	527,871	561,400	33,529
Water	573,091	367,521	(205,570)
Total Business Type Activities	\$ <u>4,406,537</u>	\$ <u>4,220,550</u>	<u>(185,987)</u>
General Revenues:			
Property Taxes			417,625
Interest Earnings			2,989
Total General Revenue			<u>420,614</u>
Change in Net Position			234,627
Net Position Beginning, as restated (Note 1)			8,235,457
Net Position Ending			\$ <u><u>8,470,084</u></u>

The accompanying notes are an integral part of this statement.

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF FUND NET POSITION-PROPRIETARY FUNDS
JUNE 30, 2015

ASSETS	Business-Type Activities			Total
	Fire Fund	Water Fund	Sanitation Fund	
Current Assets:				
Cash on Hand, in Banks and in LAIF	\$ 29,417	\$ (184,521)	\$ 1,841,714	\$ 1,686,610
Accounts Receivable	661,918	57,699	52,396	772,013
Prepaid Expenses		4,778	4,778	9,556
Note Receivable - Current Portion			52,535	52,535
Other Current Assets		1,676	1,650	3,326
Total Current Assets	<u>691,335</u>	<u>(120,368)</u>	<u>1,953,073</u>	<u>2,524,040</u>
Noncurrent Assets:				
Property, Plant & Equipment, Net	<u>693,921</u>	<u>2,213,472</u>	<u>4,435,390</u>	<u>7,342,783</u>
Total Non-Current Assets	<u>693,921</u>	<u>2,213,472</u>	<u>4,435,390</u>	<u>7,342,783</u>
Total Assets	<u>\$ 1,385,256</u>	<u>\$ 2,093,104</u>	<u>\$ 6,388,463</u>	<u>\$ 9,866,823</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Recognition of Contributions to Pension Plan	<u>\$ 112,382</u>	<u>\$ 43,958</u>	<u>\$ 43,960</u>	<u>\$ 200,300</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Expenses	\$ 182,984	\$ 20,374	\$ 42,710	\$ 246,068
Utility Deposits		7,061	7,061	14,122
Compensated Absences Payable	46,423	4,930	4,930	56,283
Note Payable - Current Portion (Note 9)	<u>52,534</u>			<u>52,534</u>
Total Current Liabilities	<u>281,941</u>	<u>32,365</u>	<u>54,701</u>	<u>369,007</u>
Long Term Liabilities:				
Net Pension Liability	<u>574,923</u>	<u>219,280</u>	<u>219,281</u>	<u>1,013,484</u>
Total Long Term Liabilities	<u>574,923</u>	<u>219,280</u>	<u>219,281</u>	<u>1,013,484</u>
Total Liabilities	<u>\$ 856,864</u>	<u>\$ 251,645</u>	<u>\$ 273,982</u>	<u>\$ 1,382,491</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Recognition of Pension Plan Earnings	<u>\$ 109,226</u>	<u>\$ 52,661</u>	<u>\$ 52,661</u>	<u>\$ 214,548</u>
NET POSITION				
Net Investment in Capital Assets	\$ 641,387	\$ 2,213,472	\$ 4,435,390	\$ 7,290,249
Unrestricted	<u>(109,839)</u>	<u>(380,716)</u>	<u>1,670,390</u>	<u>1,179,835</u>
Total Net Position	<u>\$ 531,548</u>	<u>\$ 1,832,756</u>	<u>\$ 6,105,780</u>	<u>\$ 8,470,084</u>

The accompanying notes are an integral part of this statement.

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities			
	Fire Fund	Water Fund	Sanitation Fund	Total
Operating Revenues:				
Utility Sales		\$ 355,907	\$ 530,750	\$ 886,657
Fire Contract Income	\$ 2,522,892			2,522,892
Ambulance Services	207,970			207,970
Other Operating Income	560,767	11,614	30,650	603,031
Total Operating Revenue	<u>3,291,629</u>	<u>367,521</u>	<u>561,400</u>	<u>4,220,550</u>
Expenses:				
Salaries and Benefits	2,781,344	224,453	224,796	3,230,593
Insurance	180,575	39,136	38,454	258,165
Professional Services	32,172	28,587	30,188	90,947
Utilities	7,933	133,330	22,621	163,884
Vehicles and Equipment	78,024	8,982	8,617	95,623
Depreciation	108,940	92,236	157,835	359,011
Repairs and Maintenance	5,890	21,401	16,841	44,132
Office	4,222	6,868	7,072	18,162
Other Expenses	104,918	18,098	21,447	144,463
Total Operating Expenses	<u>3,304,018</u>	<u>573,091</u>	<u>527,871</u>	<u>4,404,980</u>
Operating Income (Loss)	<u>(12,389)</u>	<u>(205,570)</u>	<u>33,529</u>	<u>(184,430)</u>
Non-Operating Revenues and Expenses:				
Interest Income		111	2,878	2,989
Property Taxes	264,853	73,867	78,905	417,625
Interest Expense	(1,557)			(1,557)
Total Non-Operating Revenues and Expenses	<u>263,296</u>	<u>73,978</u>	<u>81,783</u>	<u>419,057</u>
Change in Net Position	<u>\$ 250,907</u>	<u>\$ (131,592)</u>	<u>\$ 115,312</u>	<u>\$ 234,627</u>

The accompanying notes are an integral part of this statement.

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities			
	Fire Fund	Water Fund	Sanitation Fund	Total
Cash Flows from Operating Activities:				
Cash Received From Customers	\$ 2,934,356	\$ 379,975	\$ 580,005	\$ 3,894,336
Cash Payments to Employees	(2,807,211)	(239,684)	(240,028)	(3,286,923)
Cash Payments to Suppliers for Goods and Services	(381,051)	(246,219)	(143,789)	(771,059)
Net Cash Provided/(Used) by Operating Activities	(253,906)	(105,928)	196,188	(163,646)
Cash Flows from Non-Capital Financing Activities:				
Cash Received From Property Taxes	281,647	73,867	79,615	435,129
Net Cash Provided/(Used) by Non-Capital Financing Activities	281,647	73,867	79,615	435,129
Cash Flows from Capital and Related Financing Activities:				
Net Purchases of Fixed Assets	(26,529)	(56,654)	(45,022)	(128,205)
Principal paid on debt	(52,534)		52,534	-
Interest paid on debt	(1,557)			(1,557)
Net Cash Provided by/(Used by) Capital Financing Activities	(80,620)	(56,654)	7,512	(129,762)
Cash Flows from Investing Activities:				
Interest Received	-	111	2,878	2,989
Net Cash Provided by Investing Activities	-	111	2,878	2,989
Net Increase/(Decrease) in Cash and Cash Equivalents	(52,879)	(88,604)	286,193	144,710
Cash and Cash Equivalents:				
Balance - July 1	82,296	(95,917)	1,555,521	1,541,900
Balance - June 30	<u>\$ 29,417</u>	<u>\$ (184,521)</u>	<u>\$ 1,841,714</u>	<u>\$ 1,686,610</u>
Reconciliation:				
Operating Income (Loss)	\$ (12,389)	\$ (205,570)	\$ 33,529	\$ (184,430)
Depreciation	108,940	92,236	157,835	359,011
Deferred Inflows/Outflows of Resources	(52,403)	(12,870)	(12,871)	(78,144)
(Increase)/Decrease in Accounts Receivable	(357,273)	239	6,962	(350,072)
(Increase)/Decrease in Other Current Assets	-	12,245	11,643	23,888
Increase/(Decrease) in Accounts Payable	32,683	9,147	445	42,275
Increase/(Decrease) in Accrued Wages	26,536	(2,361)	(2,361)	21,814
Increase/(Decrease) in Utility Deposits	-	1,006	1,006	2,012
Net Cash Provided/(Used) by Operating Activities	<u>\$ (253,906)</u>	<u>\$ (105,928)</u>	<u>\$ 196,188</u>	<u>\$ (163,646)</u>

The accompanying notes are an integral part of this statement.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chester Public Utility District is a California Special District that provides water, street light, sewer, fire, ambulance and solid waste services to approximately 1,400 residential and commercial customers within the boundaries of the District.

The Chester Public Utility District (District) accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14 "The Financial Reporting Entity" and GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units," include whether:

- The organization is legally separate (can sue and be sued in its name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's 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
- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government
- The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization
- The economic resources received or held by an individual organization that the specific primary government is entitled to, or has the ability to otherwise access, are significant to that primary government

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Eliminations have been made to minimize the double-counting of internal activities. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major Proprietary Funds:

The Water Fund accounts for water and street light income, expenses, and net position.

The Sanitation Fund accounts for sewer and solid waste income, expenses, and net position.

The Fire Fund accounts for fire and ambulance income, expenses, and net position.

b. Measurement Focus, Basis of Accounting

Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are apportioned from the county since they are both measurable and available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

When the District incurs an expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB standards.

3. Assets, Liabilities, and Equity

a. Cash and Cash Equivalents

For the purposes of the statement of cash flows, highly liquid investments, including restricted funds, are considered to be cash equivalents if they have a maturity of three months or less when purchased. The District considers its investment in the Local Agency Investment Fund to be a cash equivalent for the statement of cash flows. See Note 8 for more information on the Local Agency Investment Fund.

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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 Percent of the secured public deposits. As of June 30, 2015, the District's deposits with financial institutions were \$1,686,610.

b. Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expense at the time individual inventory items are purchased. These inventories are considered immaterial and have been omitted from these statements.

c. Capital Assets

Property, Plant and Equipment owned by the District is stated at cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles and Office Equipment	3-7
Meters and Equipment	5-20
Utility Plant and Infrastructure	10-60

Gain or loss is recognized when assets are retired from service or are otherwise disposed.

d. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Plumas bills and collects the taxes for the District. The District recognizes tax revenues when apportioned by the County.

Property tax revenue is apportioned by the County at the time it is billed ("Teeter" Plan). Revenues apportioned by the County and not distributed to the District are recognized as receivables at year end.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts from District pension contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The district has only one type of item that qualifies for reporting in this category, deferred recognition of pension plan earnings.

g. Compensated Absences

Accumulated unpaid employee vacation leave benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the Water Fund, Fire Fund, and Sanitation Fund at year end.

Accumulated sick leave benefits are recognized as liabilities of the District. The vested portion of the liability is recognized currently in the Water Fund, Fire Fund and Sanitation Fund.

h. Bad Debts

The District uses the direct write-off method to record bad debts. This method is not consistent with GAAP, however the effect of this departure is considered immaterial.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Actual results could differ from those estimates.

j. Components of Net Position

For Government-Wide Financial Statements, equity is classified in three components as follows:

Net Investment in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of net assets with restrictions placed on the use either by external groups such as contributors, grantors or regulations of other governments, or law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of all other net assets that do not meet the definition of "Restricted" or "Net Investment in Capital Assets."

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 they are needed.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

k. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The final revised budget is presented in the financial statements. The District employs budget control by expense line item. Expenses cannot legally exceed appropriations by major expense category.

l. Change in Accounting Policies

In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB No. 27," which is effective for fiscal years beginning after June 15, 2014. The District has implemented the provisions of this Statement for the year ended June 30, 2015

The Statement requires numerous new pension disclosures in the notes to the financial statements and two new 10-year schedules as required supplementary information. Also, for the first time the District is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its proportionate shares of the collective pension expense, collective deferred outflows of resources and deferred inflows of resources related to pensions and collective net pension liability. The reporting of these new amounts on government-wide financial statements, along with the effect of the restatement of the beginning net position, will also affect the District's government-wide net position as follows.

	Net Position as Previously Stated	GASB 68 Restatement	Net Position As Restated
Governmental Activities:			
Total Net Position	\$ 9,341,333	\$ (1,105,876)	\$ 8,235,457
Total Governmental Activities	<u>\$ 9,341,333</u>	<u>\$ (1,105,876)</u>	<u>\$ 8,235,457</u>

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Net Assets of Individual Funds

Following are funds having deficit fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None	n/a	n/a

NOTE 3 – COMMITMENTS AND CONTINGENCIES

Legal Matters

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 4 – EXCESS OF EXPENSES OVER APPROPRIATIONS

As of June 30, 2015, expenses exceeded appropriations in individual funds as follows:

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

<u>Appropriations Category</u>	<u>Amount</u>		
	<u>Fire Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>
Salaries and Benefits	\$ 668,925	\$ 14,052	\$ 17,288
Insurance	82,575	19,636	19,254
Legal and Professional	21,172	13,287	6,788
Utilities		10,730	
Vehicles and Equipment	36,524		
Depreciation	108,940	92,236	157,835
Repairs and Maintenance		6,601	
Other Expenses	9,212		5,367

The Fire Fund:

Salaries and Benefits and Insurance exceeded appropriation due to the increase in contracted fire protection services over the budgeted level. The District also added an additional staff position that was not budgeted for. Depreciation expense exceed appropriations because the District does not budget for Depreciation. Other categories exceeded appropriations due unexpected expenses during the year; some partially due to the increase in fire protection services provided and legal expenses incurred due to litigation.

The Water Fund:

Salaries and Benefits and Insurance exceeded appropriations due to an additional part time staff to accomplish operational objectives. Legal and Professional services exceeded appropriations due to implementation of mandated regulatory requirements and expenses incurred due to litigation. Depreciation exceeded appropriations because the District does not budget for Depreciation. Other categories exceeded appropriations due to unexpected expenses during the year.

The Sanitation Fund.

Salaries and Benefits and Insurance exceeded appropriations due to addition of part time staff to accomplish operational objectives. Legal and Professional services exceeded appropriations due to implementation of mandated regulatory requirements and expenses incurred due to litigation. Depreciation expense exceeded appropriations because the District does not budget for Depreciation. Other categories exceeded appropriations due to unexpected expenses during the year.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets follows:

	Beginning Balance 06/30/14	Additions	Dispositions	Ending Balance 06/30/15
Fire	\$ 1,760,172	\$ 26,529		\$ 1,786,701
Water	3,803,770	56,654		3,860,424
Sanitation	7,135,919	45,022		7,180,941
	<u>12,699,861</u>	<u>128,205</u>	<u>-</u>	<u>12,828,066</u>
Accumulated Depreciation	<u>(5,126,271)</u>	<u>(359,011)</u>		<u>(5,485,282)</u>
Property, Plant and Equipment, Net	<u>\$ 7,573,590</u>	<u>\$ (230,806)</u>	<u>\$ -</u>	<u>\$ 7,342,784</u>

Depreciation was charged to functions as follows:

Fire	\$ 108,940
Water	92,236
Sanitation	<u>157,835</u>
Total	<u>\$ 359,011</u>

NOTE 6 – RISK MANAGEMENT AND LITIGATION

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 customers; and natural disasters. The District has managed these risks by obtaining coverage from commercial insurance companies as well as providing employee education and prevention programs. All risk management activities are accounted for in the Water Fund, Fire Fund, and Sanitation Fund. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered.

NOTE 7 – PENSION PLAN (MISCELLANEOUS PLAN)

Plan Description

The District, as the employer, participates in the cost-sharing, multiple-employer defined benefit pension plan administered by the California Public employees' Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, and beneficiaries. A full description of the pension plan benefit provisions, and assumptions for funding purposes can be obtained in Appendix B of the June 30, 2013 CalPERS actuarial evaluation report available at <https://www.calpers.ca.gov/page/forms-publications>.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Contributions

The contribution requirements of the Plan are established by Section 20814(c) of the California Public Employees' Retirement Law, which requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. For the measurement period ended June 30, 2014 the active employee contribution rate was 8% of annual pay, and the District's contribution rate was 30.411%. Contributions to the pension plan from the District were \$84,719 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a net pension liability of \$438,561 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2014. Based upon this information, the District's proportion was .0194%.

For the year ended June 30, 2015, the District recognized pension expense of \$58,978. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and Actual Experience	\$ -	\$ -
Changes of Assumption	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(105,322)
Adjustment due to Differences in Proportions	3,199	-
District Contributions Subsequent to the Measurement Date	84,719	
Total	<u>\$ 87,918</u>	<u>\$ (105,322)</u>

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

\$87,918 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2016	\$	(25,188)
2017		(25,188)
2018		(25,415)
2019		(26,332)
Total	\$	<u>(102,123)</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Discount Rate:	7.50%
Inflation:	2.75%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.50% net of Pension Plan Investment and Administrative Expenses
Mortality Rate Table:	Derived using CalPERS Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital marked assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

**CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return years 11 + ²
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date using the discount rate of 7.50%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability/(Asset)	\$ 749,025	\$ 481,706	\$ 259,857

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CalPERS which can be located at <https://www.calpers.ca.gov/page/forms-publications>.

**CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 – PENSION PLAN (SAFETY FIRE PLAN)

Plan Description

The District, as the employer, participates in the cost-sharing, multiple-employer defined benefit pension plan administered by the California Public employees' Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, and beneficiaries. A full description of the pension plan benefit provisions, and assumptions for funding purposes can be obtained in Appendix B of the June 30, 2013 CalPERS actuarial evaluation report available at <https://www.calpers.ca.gov/page/forms-publications>.

Contributions

The contribution requirements of the Plan are established by Section 20814(c) of the California Public Employees' Retirement Law, which requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. For the measurement period ended June 30, 2014 the active employee contribution rate was 9% of annual pay, and the District's contribution rate was 36.310%. Contributions to the pension plan from the District were \$112,382 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a net pension liability of \$574,923 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2014. Based upon this information, the District's proportion was .0166%.

For the year ended June 30, 2015, the District recognized pension expense of \$59,979. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and Actual Experience	\$ -	\$ -
Changes of Assumption	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(93,609)
Adjustment due to Differences in Proportions	-	(15,617)
District Contributions Subsequent to the Measurement Date	112,382	
Total	<u>\$ 112,382</u>	<u>\$ (109,226)</u>

\$112,382 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2016	\$	(28,979)
2017		(28,979)
2018		(27,865)
2019		(23,403)
Total	<u>\$</u>	<u>(109,226)</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Discount Rate:	7.50%
Inflation:	2.75%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.50% net of Pension Plan Investment and Administrative Expenses

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Mortality Rate Table: Derived using CalPERS Membership Data for all Funds

Post Retirement Benefit
Increase Contract COLA up to 2.75% until Purchasing Power
Protection Allowance Floor on Purchasing Power applies,
2.75% thereafter

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital marked assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return years 11 + ²
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

using the discount rate of 7.50%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability/(Asset)	\$ 889,741	\$ 624,170	\$ 405,350

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CalPERS which can be located at <https://www.calpers.ca.gov/page/forms-publications>.

NOTE 9 – INVESTMENTS

The District's investments at June 30, 2015 are shown below:

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Local Agency Investment Fund	N/A	\$62,246

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of individual securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk. The District has a formal investment policy adopted in February of 2006.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial

**CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District has a formal investment policy adopted in February of 2006 that contains a Concentration of Credit Risk policy.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk, because the only debt investments are from 2a7-like pools.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

CHESTER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 – LONG TERM DEBT

Long Term Debt is summarized as follows:

	<u>Balance</u> <u>06/30/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/15</u>
1.50% Note payable from Fire Fund to Sewer Fund, \$150,000 original balance, monthly payments of principal and interest	\$ 105,778	\$ -	\$ 53,243	\$ 52,535
Net Pension Liability	-	1,013,484		\$ 1,013,484
Total Long Term Debt	<u>\$ 105,778</u>	<u>\$ 1,013,484</u>	<u>\$ 53,243</u>	<u>1,066,019</u>
Less Current Portion				<u>(52,535)</u>
Long-Term Portion of Debt				<u>\$ 1,013,484</u>

Debt service requirements on long term debt at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	52,535	754	53,289
Totals	<u>\$ 52,535</u>	<u>\$ 754</u>	<u>\$ 53,289</u>

Interest expense for the year ended June 30, 2015 was \$1,557.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events were evaluated through October 23, 2015, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF OPERATIONS - FIRE FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Service Charges	\$ 2,500,000	\$ 2,500,000	\$ 2,522,892	\$ 22,892
Ambulance Services	475,200	475,200	207,970	(267,230)
Other Operating Income	-	-	560,767	560,767
Total Operating Revenue	<u>2,975,200</u>	<u>2,975,200</u>	<u>3,291,629</u>	<u>316,429</u>
Expenses:				
Salaries and Benefits	2,164,822	2,164,822	2,781,344	(616,522)
Insurance	98,000	98,000	180,575	(82,575)
Professional Services	11,000	11,000	32,172	(21,172)
Utilities	12,770	12,770	7,933	4,837
Vehicles and Equipment	41,500	41,500	78,024	(36,524)
Depreciation	-	-	108,940	(108,940)
Repairs and Maintenance	100,125	100,125	5,890	94,235
Office	4,100	4,100	4,222	(122)
Other Expenses	95,706	95,706	104,918	(9,212)
Total Operating Expenses	<u>2,528,023</u>	<u>2,528,023</u>	<u>3,304,018</u>	<u>(775,995)</u>
Operating Income (Loss)	<u>447,177</u>	<u>447,177</u>	<u>(12,389)</u>	<u>(459,566)</u>
Non-Operating Revenue (Expense):				
Property Taxes	283,600		264,853	264,853
Interest Expense			(1,557)	(1,557)
Total Non-Operating Revenues (Expenses)	<u>283,600</u>	<u>-</u>	<u>263,296</u>	<u>263,296</u>
Change in Net Position	<u>\$ 730,777</u>	<u>\$ 447,177</u>	<u>\$ 250,907</u>	<u>\$ (196,270)</u>

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF OPERATIONS - WATER FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Utility Sales	\$ 340,500	\$ 340,500	\$ 355,907	\$ 15,407
Other Operating Income	12,100	12,100	11,614	(486)
Total Operating Revenue	<u>352,600</u>	<u>352,600</u>	<u>367,521</u>	<u>14,921</u>
Expenses:				
Salaries and Benefits	223,271	223,271	224,453	(1,182)
Insurance	19,500	19,500	39,136	(19,636)
Professional Services	15,300	15,300	28,587	(13,287)
Utilities	122,600	122,600	133,330	(10,730)
Vehicles and Equipment	9,700	9,700	8,982	718
Depreciation	-	-	92,236	(92,236)
Repairs and Maintenance	14,800	14,800	21,401	(6,601)
Office	6,200	6,200	6,868	(668)
Other Expenses	19,700	19,700	18,098	1,602
Total Operating Expenses	<u>431,071</u>	<u>431,071</u>	<u>573,091</u>	<u>(142,020)</u>
Operating Income (Loss)	<u>(78,471)</u>	<u>(78,471)</u>	<u>(205,570)</u>	<u>(127,099)</u>
Non-Operating Revenue (Expense):				
Interest Income	-	-	111	111
Property Taxes	48,400	48,400	73,867	25,467
Total Non-Operating Revenues (Expenses)	<u>48,400</u>	<u>48,400</u>	<u>73,978</u>	<u>25,578</u>
Change in Net Position	<u>\$ (30,071)</u>	<u>\$ (30,071)</u>	<u>\$ (131,592)</u>	<u>\$ (101,521)</u>

CHESTER PUBLIC UTILITY DISTRICT
STATEMENT OF OPERATIONS - SANITATION FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Utility Sales	\$ 496,100	\$ 496,100	\$ 530,750	\$ 34,650
Other Operating Income	4,100	4,100	30,650	26,550
Total Operating Revenue	<u>500,200</u>	<u>500,200</u>	<u>561,400</u>	<u>61,200</u>
Expenses:				
Salaries and Benefits	220,379	220,379	224,796	(4,417)
Insurance	19,200	19,200	38,454	(19,254)
Professional Services	23,400	23,400	30,188	(6,788)
Utilities	24,100	24,100	22,621	1,479
Vehicles and Equipment	11,300	11,300	8,617	2,683
Depreciation	-	-	157,835	(157,835)
Repairs and Maintenance	27,250	27,250	16,841	10,409
Office	6,250	6,250	7,072	(822)
Other Expenses	16,080	16,080	21,447	(5,367)
Total Operating Expenses	<u>347,959</u>	<u>347,959</u>	<u>527,871</u>	<u>(179,912)</u>
Operating Income (Loss)	<u>152,241</u>	<u>152,241</u>	<u>33,529</u>	<u>(118,712)</u>
Non-Operating Revenue (Expense):				
Interest Income			2,878	2,878
Property Taxes	77,700	77,700	78,905	1,205
Total Non-Operating Revenues (Expenses)	<u>77,700</u>	<u>77,700</u>	<u>81,783</u>	<u>4,083</u>
Change in Net Position	<u>\$ 229,941</u>	<u>\$ 229,941</u>	<u>\$ 115,312</u>	<u>\$ (114,629)</u>

**SCHEDULE OF THE CHESTER PUBLIC UTILITY DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(MISCELLANEOUS PLAN)**

	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	.00774%
Districts Proportionate Share of the Net Pension Liability/(Asset)	\$ 438,561
District's Covered-Employee Payroll	\$ 214,425
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	204.53%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	76.09%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**SCHEDULE OF THE CHESTER PUBLIC UTILITY DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(SAFETY FIRE PLAN)**

	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	.01003%
District's Proportionate Share of the Net Pension Liability/(Asset)	\$ 574,923
District's Covered-Employee Payroll	\$ 309,640
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	185.67%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	68.52%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**CHESTER PUBLIC UTILITY DISTRICT'S
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(MISCELLANEOUS PLAN)**

	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 58,978
Contributions in Relation to the Actuarially Determined Contribution	<u>(87,918)</u>
Contribution Deficiency (Excess)	<u>\$ (28,940)</u>
 Covered Employee Payroll	 \$ 214,425
Contributions as a Percentage of Covered-Employee Payroll	41.00%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**CHESTER PUBLIC UTILITY DISTRICT'S
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(SAFETY FIRE PLAN)**

	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 59,979
Contributions in Relation to the Actuarially Determined Contribution	<u>(112,382)</u>
Contribution Deficiency (Excess)	<u><u>\$ (52,403)</u></u>
 Covered Employee Payroll	 \$ 309,640
Contributions as a Percentage of Covered-Employee Payroll	36.29%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

OTHER SUPPLEMENTARY INFORMATION

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

Board of Directors
Chester Public Utility District
Chester, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund, of the Chester Public Utility District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as Items 2015-1 to 2015-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs listed as 2015-1 to 2015-3 to be significant deficiencies.

Compliance and Other Matters

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

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



SingletonAuman PC
Susanville, California
October 23, 2015

SCHEDULE OF FINDINGS AND RESPONSES

**CHESTER PUBLIC UTILITY DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

EXECUTIVE SUMMARY

The Chester Public Utility District was formed in 1969. The quality of the District's internal controls is highly dependent upon involvement in the day to day operations by the volunteer District Board Members. Also, due to the limited number of employees of the District, there is an inability to segregate the custody of and accountability for District assets in the manner generally required for model systems of internal accounting controls. A summary of the auditors' results follows:

1. **Type of Auditors' Report on Financial Statements:** Unmodified
2. **Internal Control Findings:** 3 Significant Deficiencies, 2 being Material Weaknesses
3. **Material Noncompliance Noted:** None

**CHESTER PUBLIC UTILITY DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

YELLOW BOOK SECTION

Internal Control – Material Weakness

Finding 2015-1: Lack of Segregation of Duties

Criteria upon which audit finding is based (Legal Citation):

Yellow Book paragraphs 5.11 – 5.15 and Appendix I, SAS 122.

Finding (Condition):

An inadequate segregation of duties exists.

Amount of Questioned Cost, How Computed and Prevalence:

None.

Effect:

The District has exposure to risk of financial statement misstatement and the potential risk for fraud.

Cause:

Due to the number of personnel assigned to duties that involve access to the general ledger and other accounting records and who also have custody of and responsibility for handling cash and other assets, an inadequate segregation of duties exists.

Recommendation:

We recommend that the District employees and board maintain diligence for the potential risks of not having an adequate segregation of duties.

District's Response:

Due to the number of employees of the District, it is not possible for the District to cost effectively mitigate this finding. The District cannot, with its current budget hire an adequate number of employees to insure that custody of assets and accountability for assets is separated.

The District does, however, believe that being aware of this weakness will insure that existing employees and Board members will maintain diligence to potential risks of not having an adequate segregation of duties.

**CHESTER PUBLIC UTILITY DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

YELLOW BOOK SECTION

Internal Control – Material Weakness

Finding 2015-2 Financial Reporting

Criteria Upon Which Audit Finding is Based (Legal Citation)

In accordance with Statement on Auditing Standards No. 122, the District is responsible for preparing complete and accurate financial statements, footnote disclosures, and management's discussion and analysis in accordance with Generally Accepted Accounting Principles (GAAP).

Finding (Condition)

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Amount of Questioned Cost, How Computed and Prevalence

None.

Effect

There is a risk that a material financial statement misstatement may exist and not be prevented or detected by the District's system of internal control.

Cause

This condition has always existed at the District, and is being reported in accordance with SAS 122.

Recommendation

We recommend that the District consider the cost benefit of hiring an accountant familiar with GAAP or hiring an independent CPA firm to compile financial statements in conformity with GAAP.

District's Response

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

**CHESTER PUBLIC UTILITY DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

YELLOW BOOK SECTION

Internal Control – Significant Deficiency

Finding 2015-3: Cash Disbursements

Criteria upon which audit finding is based (Legal Citation):
Yellow Book paragraphs 5.11 – 5.15, SAS 122.

Finding (Condition):
The District does not have policies requiring prior authorization for cash disbursements.

Amount of Questioned Cost, How Computed and Prevalence:
Not determined.

Effect:
The District has exposure to risk of financial statement misstatement and the potential risk for fraud.

Cause:
The District did not have adequate policies and procedures in place ensure purchases are authorized by the appropriate level of personnel.

Recommendation:
The District should establish proper policies and procedures over cash disbursements.

District's Response:
The District concurs with this finding. See Corrective Action Plan.

**CHESTER PUBLIC UTILITY DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(FINDINGS FROM THE JUNE 30, 2014 AUDIT REPORT)
JUNE 30, 2015**

Finding 2014-1

Due to the number of employees an inadequate segregation of duties exists.

Status

Ongoing – See current year finding 2015-1.

Finding 2014-2

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Status

Ongoing – See current year finding 2015-2.

Finding 2014-3

Inadequate accounting procedures for Employee Benefits exists. The District did not have an accurate method for calculating and reporting CalPERS expense and liability for employee retirement medical and pension benefits

Status

Implemented

**CHESTER PUBLIC UTILITY DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2015**

Person Monitoring Corrective Action Plan
General Manager, Joe Waterman

Finding 2015-1 Lack of Segregation of Duties

Finding (Condition)

Due to the number of employees an inadequate segregation of duties exists.

Corrective Action Planned

Due to the number of employees of the District it is not possible for the District to cost effectively mitigate this finding. The District cannot, with its current budget hire an adequate number of employees to insure that custody of assets and accountability for assets is separated.

The District does however believe that being aware of this weakness will insure that existing employees and board members will maintain diligence to potential risks of not having an adequate segregation of duties.

Expected Completion Date

Ongoing.

Finding 2015-2 Financial Reporting

Finding (Condition)

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Corrective Action Planned

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

Expected Completion Date

Ongoing.

**CHESTER PUBLIC UTILITY DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2015**

Finding 2015-3 Cash Disbursements

Finding (Condition)

The District does not have policies requiring prior authorization for cash disbursements.

Corrective Action Planned

The District is currently developing policies and procedures that will require prior authorization and accountability for cash disbursements.

Expected Completion Date

June 30, 2016