

**CHESTER PUBLIC UTILITY DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2016**

**CHESTER PUBLIC UTILITY DISTRICT  
AUDIT REPORT  
JUNE 30, 2016**

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## Independent Auditors' Report

Board of Directors  
Chester Public Utility District  
Chester, CA 96020

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, 2016, 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.

## **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, 2016, 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.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, the Schedules of Proportionate Share of Net Pension Liability and the Schedules of District Contributions 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 November 16, 2016, 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 "Singleton Auman PC", followed by a stylized "AC" monogram.

Singleton Auman PC  
Susanville, CA

November 16, 2016

## **FINANCIAL SECTION**

**CHESTER PUBLIC UTILITY DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2016**

**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, 2016. 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 \$8,979,868 at June 30, 2016. This was an overall increase of \$546,244 from the prior year. Overall revenues were \$6,429,971, which were more than expenses of \$5,883,727 by \$546,244.
- ❑ The total cost of the District's programs increased by \$1,447,190 from last year. This change is due primarily to an amended agreement with the United States Forest Service (USFS) for services related to management of USFS firefighters.
- ❑ Long-term liabilities increased by \$158,141 due to the net pension liability.

**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 \$8,979,868 at June 30, 2016. See Table 1.

The significant changes in Table 1 line items for fiscal year 2016 vs 2015 are:

- Cash and Investments increased due to an amended agreement with the United States Forest Service (USFS) for services related to management of USFS firefighters.

**Table 1:**

### Net Position

|                                                       | Business-Type Activities |                     | Change    |
|-------------------------------------------------------|--------------------------|---------------------|-----------|
|                                                       | 2016                     | 2015                | 2016-2015 |
| <b>Assets</b>                                         |                          |                     |           |
| Cash and Investments                                  | \$ 2,507,482             | \$ 1,686,610        | 48.67%    |
| Accounts Receivable                                   | 741,433                  | 772,013             | -3.96%    |
| Other Current Assets                                  | 12,880                   | 12,882              | -0.02%    |
| Capital Assets, Net of Accumulated Depreciation       | 7,126,008                | 7,342,783           | -2.95%    |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 10,387,803</b>     | <b>\$ 9,814,288</b> |           |
| <b>Deferred Outflows of Resources</b>                 |                          |                     |           |
| Deferred Recognition of Contributions to Pension Plan | \$ 290,133               | \$ 200,300          | 44.85%    |
| <b>Current Liabilities:</b>                           |                          |                     |           |
| Accounts Payable and Accrued Expenses                 | \$ 289,488               | \$ 246,068          | 17.65%    |
| Utility Deposits                                      | 16,121                   | 14,122              | 14.16%    |
| Accrued Vacation                                      | 44,281                   | 56,283              | -21.32%   |
| Net Pension Liability                                 | 1,171,625                | 1,013,484           | 15.60%    |
| <b>TOTAL LIABILITIES</b>                              | <b>\$ 1,521,515</b>      | <b>\$ 1,329,957</b> |           |
| <b>Deferred Inflows of Resources</b>                  |                          |                     |           |
| Deferred Recognition of Pension Plan Earnings         | 176,553                  | 214,548             | -17.71%   |
| <b>Net Position</b>                                   |                          |                     |           |
| Net Investment in Capital Assets                      | \$ 7,126,008             | \$ 7,290,249        | -2.25%    |
| Unrestricted (deficit)                                | 1,853,860                | 1,179,835           | 57.13%    |
| <b>TOTAL NET POSITION</b>                             | <b>\$ 8,979,868</b>      | <b>\$ 8,470,084</b> |           |

## Changes in Net Position

- The District's total revenues were \$6,429,971. A majority of the revenue comes from Utility Sales and Fire Protection Services (84.9%). Revenues increased due to an amended agreement with the United States Forest Service (USFS) for services related to management of USFS firefighters.
- The total cost of all programs and services was \$5,883,727. Program expenses increased from the prior year due to an amended agreement with the United States Forest Service (USFS) for services related to management of USFS firefighters.

See Table 2 below.

**Table 2:**  
**Changes in Net Position**

|                               | Business-Type Activities |                   | Total Percentage    |
|-------------------------------|--------------------------|-------------------|---------------------|
|                               | 2016                     | 2015              | Change<br>2016-2015 |
| Revenues                      |                          |                   |                     |
| Program Revenues:             |                          |                   |                     |
| Charges for Services          | \$ 5,957,939             | \$ 4,220,550      | 41.16%              |
| General Revenues              |                          |                   |                     |
| Property Taxes                | 469,295                  | 417,625           | 12.37%              |
| Interest Income               | 2,737                    | 2,989             | -8.43%              |
| <b>TOTAL REVENUES</b>         | <u>6,429,971</u>         | <u>4,641,164</u>  |                     |
|                               |                          |                   |                     |
| Program Expenses              |                          |                   |                     |
| Fire                          | 4,815,108                | 3,305,575         | 45.67%              |
| Water                         | 543,107                  | 527,871           | 2.89%               |
| Sanitation                    | 525,512                  | 573,091           | -8.30%              |
| <b>TOTAL EXPENSES</b>         | <u>5,883,727</u>         | <u>4,406,537</u>  |                     |
|                               |                          |                   |                     |
| <b>CHANGE IN NET POSITION</b> | <u>\$ 546,244</u>        | <u>\$ 234,627</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 \$74,212.

The amount that our taxpayers paid for these activities through property taxes was \$469,295.

Most of the costs were paid directly from people who directly benefited from the programs: \$5,957,939.

**Table 3**  
**Net Cost of Business-Type Activities**

|              | Total Cost of Services |                     | Net Cost of Services |                   |
|--------------|------------------------|---------------------|----------------------|-------------------|
|              | 2016                   | 2015                | 2016                 | 2015              |
| Fire         | \$ 4,815,108           | \$ 3,305,575        | \$ 238,971           | \$ 13,946         |
| Water        | 525,512                | 573,091             | (159,724)            | 205,570           |
| Sanitation   | 543,107                | 527,871             | (5,035)              | (33,529)          |
| <b>TOTAL</b> | <b>\$ 5,883,727</b>    | <b>\$ 4,406,537</b> | <b>\$ 74,212</b>     | <b>\$ 185,987</b> |

## 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 \$8,979,868, which is above last year's ending fund balance of \$8,470,084.

## 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, 2016, the District had invested \$7,126,008 in a broad range of capital assets, including land and the water and sanitation systems. During the year the District had additional investments in all enterprise operations. 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    |
|--------------------------------|----------------------------|----------------------------|---------------------|
|                                | 2016                       | 2015                       | Change<br>2016-2015 |
| Fire                           | \$ 1,811,297               | \$ 1,786,701               | 1.38%               |
| Water System                   | 3,900,354                  | 3,860,424                  | 1.03%               |
| Sanitation System              | 7,244,218                  | 7,180,941                  | 0.88%               |
| Totals at Historical Cost      | 12,955,869                 | 12,828,066                 |                     |
| Total Accumulated Depreciation | (5,829,861)                | (5,485,282)                | 6.28%               |
| <b>NET CAPITAL ASSETS</b>      | <u><u>\$ 7,126,008</u></u> | <u><u>\$ 7,342,784</u></u> |                     |

The District's fiscal year 16/17 budget projects capital spending of \$250,000 for 400 feet of sewer line replacement and new medical equipment for the Fire Department.

## Long-Term Debt

At year end, the District only long-term debt was the net pension liability. See 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    |
|-----------------------------|-------------------------|-------------------|---------------------|
|                             | 2016                    | 2015              | Change<br>2016-2015 |
| Net Pension Liability       | \$ 1,171,625            | \$ 1,013,484      | 16%                 |
| <b>TOTAL LONG-TERM DEBT</b> | <b>\$ 1,171,625</b>     | <b>\$ 105,778</b> |                     |

## 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:

Frank Motzkus, General Manager  
Chester Public Utility District  
P.O. Box 503  
Chester, CA 96020  
(530) 258-2171

**CHESTER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

|                                                       | Business-Type<br>Activities                 |
|-------------------------------------------------------|---------------------------------------------|
| <b>ASSETS</b>                                         | <u>Fire, Water and<br/>Sanitation Funds</u> |
| Current Assets:                                       |                                             |
| Cash on Hand, in Banks, and in LAIF                   | \$ 2,507,482                                |
| Accounts Receivable                                   | 741,433                                     |
| Prepaid Expenses                                      | 9,554                                       |
| Other Current Assets                                  | 3,326                                       |
| Total Current Assets                                  | <u>3,261,795</u>                            |
| Noncurrent Assets:                                    |                                             |
| Property, Plant & Equipment, Net                      | <u>7,126,008</u>                            |
| Total Non-Current Assets                              | <u>7,126,008</u>                            |
| Total Assets                                          | <u><u>\$ 10,387,803</u></u>                 |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                 |                                             |
| Deferred Recognition of Contributions to Pension Plan | <u><u>\$ 290,133</u></u>                    |
| <b>LIABILITIES</b>                                    |                                             |
| Current Liabilities:                                  |                                             |
| Accounts Payable and Accrued Expenses                 | \$ 289,488                                  |
| Utility Deposits                                      | 16,121                                      |
| Compensated Absences Payable                          | 44,281                                      |
| Total Current Liabilities                             | <u>349,890</u>                              |
| Long Term Liabilities                                 |                                             |
| Net Pension Liability                                 | <u>1,171,625</u>                            |
| Total Long Term Liabilities                           | <u>1,171,625</u>                            |
| Total Liabilities                                     | <u><u>\$ 1,521,515</u></u>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                  |                                             |
| Deferred Recognition of Pension Plan Earnings         | <u><u>\$ 176,553</u></u>                    |
| <b>NET POSITION</b>                                   |                                             |
| Net Investment in Capital Assets                      | \$ 7,126,008                                |
| Unrestricted                                          | 1,853,860                                   |
| Total Net Position                                    | <u><u>\$ 8,979,868</u></u>                  |

The accompanying notes are an integral part of this statement.

**CHESTER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2016**

|                                        | Expenses            | Program Revenue<br>Charges<br>For<br>Services | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|----------------------------------------|---------------------|-----------------------------------------------|----------------------------------------------------------|
| <b><u>Business Type Activities</u></b> |                     |                                               |                                                          |
| Fire                                   | \$ 4,907,522        | \$ 5,110,034                                  | \$ 202,512                                               |
| Sanitation                             | 543,107             | 538,072                                       | (5,035)                                                  |
| Water                                  | 525,512             | 365,788                                       | (159,724)                                                |
| Total Business Type Activities         | \$ <u>5,976,141</u> | \$ <u>6,013,894</u>                           | <u>37,753</u>                                            |
| <b>General Revenues:</b>               |                     |                                               |                                                          |
| Property Taxes                         |                     |                                               | 469,295                                                  |
| Interest Earnings                      |                     |                                               | <u>2,737</u>                                             |
| Total General Revenue                  |                     |                                               | <u>472,032</u>                                           |
| Change in Net Position                 |                     |                                               | 509,785                                                  |
| Net Position Beginning                 |                     |                                               | <u>8,470,084</u>                                         |
| Net Position Ending                    |                     |                                               | \$ <u><u>8,979,869</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, 2016**

| ASSETS                                                | Business-Type<br>Activities |                    |                    | Total                |
|-------------------------------------------------------|-----------------------------|--------------------|--------------------|----------------------|
|                                                       | Fire<br>Fund                | Water<br>Fund      | Sanitation<br>Fund |                      |
| Current Assets:                                       |                             |                    |                    |                      |
| Cash on Hand, in Banks and in LAIF                    | \$ 658,475                  | \$ (215,515)       | \$2,064,522        | \$ 2,507,482         |
| Accounts Receivable                                   | 637,469                     | 49,186             | 54,778             | 741,433              |
| Prepaid Expenses                                      |                             | 4,777              | 4,777              | 9,554                |
| Other Current Assets                                  |                             | 1,676              | 1,650              | 3,326                |
| Total Current Assets                                  | 1,295,944                   | (159,876)          | 2,125,727          | 3,261,795            |
| Noncurrent Assets:                                    |                             |                    |                    |                      |
| Property, Plant & Equipment, Net                      | 619,369                     | 2,161,430          | 4,345,209          | 7,126,008            |
| Total Non-Current Assets                              | 619,369                     | 2,161,430          | 4,345,209          | 7,126,008            |
| Total Assets                                          | <u>\$ 1,915,313</u>         | <u>\$2,001,554</u> | <u>\$6,470,936</u> | <u>\$ 10,387,803</u> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                 |                             |                    |                    |                      |
| Deferred Recognition of Contributions to Pension Plan | <u>\$ 175,161</u>           | <u>\$ 57,361</u>   | <u>\$ 57,611</u>   | <u>\$ 290,133</u>    |
| <b>LIABILITIES</b>                                    |                             |                    |                    |                      |
| Current Liabilities:                                  |                             |                    |                    |                      |
| Accounts Payable and Accrued Expenses                 | \$ 253,204                  | \$ 15,090          | \$ 21,194          | \$ 289,488           |
| Utility Deposits                                      |                             | 7,538              | 8,583              | 16,121               |
| Compensated Absences Payable                          | 37,881                      | 3,200              | 3,200              | 44,281               |
| Total Current Liabilities                             | 291,085                     | 25,828             | 32,977             | 349,890              |
| Long Term Liabilities:                                |                             |                    |                    |                      |
| Net Pension Liability                                 | 685,441                     | 242,875            | 243,309            | 1,171,625            |
| Total Long Term Liabilities                           | 685,441                     | 242,875            | 243,309            | 1,171,625            |
| Total Liabilities                                     | <u>\$ 976,526</u>           | <u>\$ 268,703</u>  | <u>\$ 276,286</u>  | <u>\$ 1,521,515</u>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                  |                             |                    |                    |                      |
| Deferred Recognition of Pension Plan Earnings         | <u>\$ 82,674</u>            | <u>\$ 46,992</u>   | <u>\$ 46,887</u>   | <u>\$ 176,553</u>    |
| <b>NET POSITION</b>                                   |                             |                    |                    |                      |
| Net Investment in Capital Assets                      | \$ 619,369                  | \$2,161,430        | \$4,345,209        | \$ 7,126,008         |
| Unrestricted                                          | 411,905                     | (418,210)          | 1,860,165          | 1,853,860            |
| Total Net Position                                    | <u>\$ 1,031,274</u>         | <u>\$1,743,220</u> | <u>\$6,205,374</u> | <u>\$ 8,979,868</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, 2016**

|                                           | Business-Type Activities |               |                    |            |
|-------------------------------------------|--------------------------|---------------|--------------------|------------|
|                                           | Fire<br>Fund             | Water<br>Fund | Sanitation<br>Fund | Total      |
| Operating Revenues:                       |                          |               |                    |            |
| Utility Sales                             |                          | \$ 336,817    | \$ 533,056         | \$ 869,873 |
| Fire Contract Income                      | \$ 4,589,319             |               |                    | 4,589,319  |
| Ambulance Services                        | 223,325                  |               |                    | 223,325    |
| Other Operating Income                    | 297,390                  | 28,971        | 5,016              | 331,377    |
| Total Operating Revenue                   | 5,110,034                | 365,788       | 538,072            | 6,013,894  |
| Expenses:                                 |                          |               |                    |            |
| Salaries and Benefits                     | 4,417,930                | 249,316       | 251,971            | 4,919,217  |
| Insurance                                 | 113,765                  | 22,652        | 22,847             | 159,264    |
| Professional Services                     | 40,623                   | 19,382        | 13,117             | 73,122     |
| Utilities                                 | 14,058                   | 116,064       | 35,612             | 165,734    |
| Vehicles and Equipment                    | 23,603                   | 5,898         | 7,176              | 36,677     |
| Depreciation                              | 99,149                   | 91,973        | 153,460            | 344,582    |
| Repairs and Maintenance                   | 6,162                    | 1,753         | 28,186             | 36,101     |
| Office                                    | 2,997                    | 7,885         | 7,163              | 18,045     |
| Other Expenses                            | 188,483                  | 10,589        | 23,575             | 222,647    |
| Total Operating Expenses                  | 4,906,770                | 525,512       | 543,107            | 5,975,389  |
| Operating Income (Loss)                   | 203,264                  | (159,724)     | (5,035)            | 38,505     |
| Non-Operating Revenues and Expenses:      |                          |               |                    |            |
| Interest Income                           |                          | 179           | 2,558              | 2,737      |
| Property Taxes                            | 297,214                  | 70,010        | 102,071            | 469,295    |
| Interest Expense                          | (752)                    |               |                    | (752)      |
| Total Non-Operating Revenues and Expenses | 296,462                  | 70,189        | 104,629            | 471,280    |
| Change in Net Position                    | \$ 499,726               | \$ (89,535)   | \$ 99,594          | \$ 509,785 |

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, 2016**

|                                                              | Business-Type<br>Activities |               |                    |              |
|--------------------------------------------------------------|-----------------------------|---------------|--------------------|--------------|
|                                                              | Fire<br>Fund                | Water<br>Fund | Sanitation<br>Fund | Total        |
| Cash Flows from Operating Activities:                        |                             |               |                    |              |
| Cash Received From Customers                                 | \$5,134,483                 | \$ 374,301    | \$ 535,690         | \$6,044,474  |
| Cash Payments to Employees                                   | (4,306,136)                 | (246,525)     | (249,098)          | (4,801,759)  |
| Cash Payments to Suppliers for Goods and Services            | (418,620)                   | (189,029)     | (157,670)          | (765,319)    |
| Net Cash Provided/(Used) by Operating Activities             | 409,727                     | (61,253)      | 128,922            | 477,396      |
| Cash Flows from Non-Capital Financing Activities:            |                             |               |                    |              |
| Cash Received From Property Taxes                            | 297,214                     | 70,010        | 102,071            | 469,295      |
| Net Cash Provided/(Used) by Non-Capital Financing Activities | 297,214                     | 70,010        | 102,071            | 469,295      |
| Cash Flows from Capital and Related Financing Activities:    |                             |               |                    |              |
| Net Purchases of Fixed Assets                                | (24,597)                    | (39,930)      | (63,277)           | (127,804)    |
| Interest paid on debt                                        | (752)                       |               |                    | (752)        |
| Principal paid on Debt                                       | (52,534)                    |               | 52,534             |              |
| Net Cash Provided by/(Used by) Capital Financing Activities  | (77,883)                    | (39,930)      | (10,743)           | (128,556)    |
| Cash Flows from Investing Activities:                        |                             |               |                    |              |
| Interest Received                                            | -                           | 179           | 2,558              | 2,737        |
| Net Cash Provided by Investing Activities                    | -                           | 179           | 2,558              | 2,737        |
| Net Increase/(Decrease) in Cash and Cash Equivalents         | 629,058                     | (30,994)      | 222,808            | 820,872      |
| Cash and Cash Equivalents:                                   |                             |               |                    |              |
| Balance - July 1                                             | 29,417                      | (184,521)     | 1,841,714          | 1,686,610    |
| Balance - June 30                                            | 658,475                     | \$ (215,515)  | \$ 2,064,522       | \$ 2,507,482 |
| Reconciliation:                                              |                             |               |                    |              |
| Operating Income (Loss)                                      | 203,264                     | \$ (159,724)  | \$ (5,035)         | \$ 38,505    |
| Non-Operating Income (Expense)                               |                             |               |                    |              |
| Depreciation                                                 | 99,149                      | 91,973        | 153,460            | 344,582      |
| (Increase) Decrease in Deferred Outflows of Resources        | (62,779)                    | 4,521         | 4,602              | (53,656)     |
| (Increase)/Decrease in Accounts Receivable                   | 24,449                      | 8,513         | (2,382)            | 30,580       |
| (Increase)/Decrease in Other Current Assets                  |                             | 1             | 1                  | 2            |
| Increase/(Decrease) in Accounts Payable                      | 70,220                      | (5,284)       | (21,516)           | 43,420       |
| Increase/(Decrease) in Accrued Wages                         | (8,542)                     | (1,730)       | (1,730)            | (12,002)     |
| Increase/(Decrease) in Utility Deposits                      | -                           | 477           | 1,522              | 1,999        |
| Increase/(Decrease) in Pension Liability                     | 110,518                     |               |                    | 110,518      |
| Increase/(Decrease) in Deferred Inflows                      | (26,552)                    |               |                    | (26,552)     |
| Net Cash Provided/(Used) by Operating Activities             | 409,727                     | (61,253)      | \$ 128,922         | \$ 477,396   |

The accompanying notes are an integral part of this statement.

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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, 2016**

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, 2016**

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.

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.

b. Fair Value Measurements and Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets and liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include various types of mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

c. 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.

d. 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.

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

| <u>Asset Class</u>               | <u>Estimated Useful<br/>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.

e. 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.

f. 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.

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

h. 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.

i. 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.

j. 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.

k. 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

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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.

I. 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.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2016 consists of the following:

| Description                          | <u>Fire</u>       | <u>Water</u>        | <u>Wastewater</u>   |
|--------------------------------------|-------------------|---------------------|---------------------|
| Cash on Hand                         | \$ 100            | \$ 150              | \$ 150              |
| Deposits with financial institutions | 658,375           | (254,530)           | 2,040,708           |
| LAIF                                 | -0-               | 38,865              | 23,664              |
| Total cash and Investments           | <u>\$ 658,475</u> | <u>\$ (215,515)</u> | <u>\$ 2,064,522</u> |

Investments consist of the Local Agency Investment Fund and are stated at fair value based on significant other observable inputs.

The fair value measurements of assets recognized in the accompanying statement of net position measured at fair value on a recurring basis and level 2 within the fair value hierarchy, are \$62,529.

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

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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. 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 amount in excess of federal depository insurance limits was \$2,194,553 and the remaining amounts were collateralized as described above.

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.

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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.

**NOTE 3 – 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<br/>Amount</u> | <u>Remarks</u> |
|------------------|---------------------------|----------------|
| None             | n/a                       | n/a            |

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 – 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 5 – EXCESS OF EXPENSES OVER APPROPRIATIONS**

As of June 30, 2016, expenses exceeded appropriations in individual funds as follows:

| <u>Appropriations Category</u> | <u>Amount</u>    |                   |                        |
|--------------------------------|------------------|-------------------|------------------------|
|                                | <u>Fire Fund</u> | <u>Water Fund</u> | <u>Sanitation Fund</u> |
| Salaries and Benefits          | \$ 3,558,743     |                   |                        |
| Insurance                      | 91,765           | 12,552            | 12,747                 |
| Legal and Professional         | 29,123           | 3,182             |                        |
| Utilities                      |                  |                   | 11,512                 |
| Depreciation                   | 99,149           | 91,973            | 153,460                |
| Office Expense                 |                  | 1,685             | 913                    |
| Other Expenses                 | 61,969           |                   | 7,295                  |

The Fire Fund:

Salaries/Benefits and Insurance expenses cannot be budgeted accurately, as the contracts to the District fluctuate significantly between years. Legal and professional fees and other expenses increased due to unanticipated costs. Depreciation is not budgeted.

The Water Fund:

Insurance, legal and professional, and office expenses exceeded budget due to unanticipated costs. Depreciation is not budgeted.

The Sanitation Fund:

Insurance, utilities, office and other expenses exceeded budget due to unanticipated costs. Depreciation is not budgeted.

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 – PROPERTY, PLANT AND EQUIPMENT**

A summary of changes in fixed assets follows:

|                                    | Beginning<br>Balance<br><u>06/30/15</u> | <u>Additions</u>    | <u>Dispositions</u> | Ending<br>Balance<br><u>06/30/16</u> |
|------------------------------------|-----------------------------------------|---------------------|---------------------|--------------------------------------|
| Fire                               | \$ 1,786,701                            | \$ 25,466           | \$ 870              | \$ 1,811,297                         |
| Water                              | 3,860,424                               | 39,930              |                     | 3,900,354                            |
| Sanitation                         | <u>7,180,941</u>                        | <u>63,277</u>       |                     | <u>7,244,218</u>                     |
|                                    | 12,828,066                              | 128,673             | 870                 | 12,955,869                           |
| Accumulated Depreciation           | <u>(5,485,282)</u>                      | <u>(344,579)</u>    |                     | <u>(5,829,861)</u>                   |
| Property, Plant and Equipment, Net | <u>\$ 7,342,784</u>                     | <u>\$ (215,906)</u> | <u>\$ 870</u>       | <u>\$ 7,126,008</u>                  |

Depreciation was charged to functions as follows:

|            |                   |
|------------|-------------------|
| Fire       | \$ 99,146         |
| Water      | 91,973            |
| Sanitation | <u>153,460</u>    |
| Total      | <u>\$ 344,579</u> |

**NOTE 7 – 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.

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – 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, 2015 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, 2015 the active employee contribution rate was 8% of annual pay, and the District's contribution rate was 24.315%. Contributions to the pension plan from the District were \$40,434 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a net pension liability of \$555,506 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2015. Based upon this information, the District's proportion was .015205%.

For the year ended June 30, 2016, the District recognized pension expense of \$52,618.

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, 2016**

|                                                                                  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|----------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Differences between expected and Actual Experience                               | \$ 4,348                                  | \$ -                                     |
| Changes of Assumption                                                            | -                                         | (41,140)                                 |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | -                                         | (20,624)                                 |
| Adjustment due to Differences in Proportions                                     | 62,078                                    | -                                        |
| Difference between actual and proportionate share of contributions               | -                                         | (1,063)                                  |
| District Contributions Subsequent to the Measurement Date                        | 40,434                                    |                                          |
| Total                                                                            | <u>\$ 106,860</u>                         | <u>\$ (62,827)</u>                       |

\$40,434 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, 2017. 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: |                  |
| 2017                | 33,830           |
| 2018                | (6,831)          |
| 2019                | (9,329)          |
| 2020                | 26,363           |
| 2021                | -                |
| Total               | <u>\$ 44,033</u> |

**CHESTER PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

|                                     |                                                                                                                                 |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Discount Rate:                      | 7.65%                                                                                                                           |
| Inflation:                          | 2.75%                                                                                                                           |
| Salary Increases:                   | Varies by Entry Age and Service                                                                                                 |
|                                     | Investment Rate of Return: 7.50% net of Pension Plan<br>Investment and Administrative Expenses                                  |
| Mortality Rate Table:               | Derived using CalPERS Membership Data for all Funds                                                                             |
| Post Retirement Benefit<br>Increase | Contract COLA up to 2.75% until<br>Purchasing Power Protection Allowance Floor on<br>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<br>Allocation | Real Return<br>Years 1-10 <sup>1</sup> | Real Return<br>years 11 + <sup>2</sup> |
|-------------------------------|-----------------------------|----------------------------------------|----------------------------------------|
| 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)                                 |

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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

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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%<br>(6.65%) | Current Discount<br>Rate (7.65%) | Discount Rate + 1%<br>(8.65%) |
|--------------------------------------|-------------------------------|----------------------------------|-------------------------------|
| Plan's Net Pension Liability/(Asset) | \$ 931,623                    | \$ 555,506                       | \$ 244,978                    |

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 – 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, 2015

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the active employee contribution rate was 9% of annual pay, and the District contribution rate was 22.920%. Contributions to the pension plan from the District were \$104,893 for the year ended June 30, 2016.

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 \$616,119 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2015. Based upon this information, the District's proportion was .008888%.

For the year ended June 30, 2015, the District recognized pension expense of \$46,481. 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<br>of Resources | Deferred Inflows<br>of Resources |
|----------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| Differences between expected and Actual Experience                               | \$ (13,384)                       | \$ -                             |
| Changes of Assumption                                                            | -                                 | (61,554)                         |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | -                                 | (31,194)                         |
| Adjustment due to Differences in Proportions                                     | 61,116                            | -                                |
| Difference between Actual and Proportionate Share of Contributions               | 16,778                            |                                  |
| District Contributions Subsequent to the Measurement Date                        | 104,893                           |                                  |
| Total                                                                            | <u>\$ 169,403</u>                 | <u>\$ (92,748)</u>               |

\$104,893 reported as deferred outflows of resources related to pensions resulting from District

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contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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: |                  |
|---------------------|------------------|
| 2017                | 80,927           |
| 2018                | (22,924)         |
| 2019                | (19,642)         |
| 2020                | 38,294           |
| 2021                | -0-              |
| Total               | <u>\$ 76,655</u> |

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015 using the following actuarial assumptions, applied to all prior periods included in the measurement:

|                                  |                                                                                                                           |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Discount Rate:                   | 7.65%                                                                                                                     |
| 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.

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| Asset Class                   | New Strategic<br>Allocation | Real Return<br>Years 1-10 <sup>1</sup> | Real Return<br>years 11 + <sup>2</sup> |
|-------------------------------|-----------------------------|----------------------------------------|----------------------------------------|
| 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)                                 |

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> 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 7.65%, 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 (6.65%) or 1 percentage point higher (8.65%) than the current rate:

|                                         | Discount Rate - 1%<br>(6.65%) | Current Discount<br>Rate (7.65%) | Discount Rate + 1%<br>(8.65%) |
|-----------------------------------------|-------------------------------|----------------------------------|-------------------------------|
| Plan's Net Pension<br>Liability/(Asset) | \$ 987,851                    | \$ 616,119                       | \$ 311,306                    |

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, 2016**

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.

**NOTE 10 – LONG TERM DEBT**

Long Term Debt is summarized as follows:

|                                                                                                                                  | Balance<br><u>06/30/15</u> | <u>Increases</u>  | <u>Decreases</u> | Balance<br><u>06/30/16</u> |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|------------------|----------------------------|
| 1.50% Note payable from Fire Fund<br>to Sewer Fund, \$150,000 original<br>balance, monthly payments of<br>principal and interest | \$ 52,535                  | \$ -              | \$ 52,535        | \$ -                       |
| Net Pension Liability                                                                                                            | 1,013,484                  | 158,141           |                  | \$ 1,171,625               |
| Total Long Term Debt                                                                                                             | <u>\$ 1,066,019</u>        | <u>\$ 158,141</u> | <u>\$ 52,535</u> | 1,171,625                  |
| Less Current Portion                                                                                                             |                            |                   |                  | -                          |
| Long-Term Portion of Debt                                                                                                        |                            |                   |                  | <u>\$ 1,171,625</u>        |

Interest expense for the year ended June 30, 2016 was \$752.

**NOTE 11 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through November 16, 2016, 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, 2016**

|                                         | Budget Amounts |              | Actual       | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|-----------------------------------------|----------------|--------------|--------------|-------------------------------------------------------------|
|                                         | Original       | Final        |              |                                                             |
| Operating Revenues:                     |                |              |              |                                                             |
| Service Charges                         | \$ 400,000     | \$ 400,000   | \$ 4,589,319 | \$ 4,189,319                                                |
| Ambulance Services                      | -              | -            | 223,325      | 223,325                                                     |
| Other Operating Income                  | 70,000         | 70,000       | 297,390      | 227,390                                                     |
| Total Operating Revenue                 | 470,000        | 470,000      | 5,110,034    | 4,640,034                                                   |
| Expenses:                               |                |              |              |                                                             |
| Salaries and Benefits                   | 859,187        | 859,187      | 4,417,930    | (3,558,743)                                                 |
| Insurance                               | 22,000         | 22,000       | 113,765      | (91,765)                                                    |
| Professional Services                   | 11,500         | 11,500       | 40,623       | (29,123)                                                    |
| Utilities                               | 21,000         | 21,000       | 14,058       | 6,942                                                       |
| Vehicles and Equipment                  | 161,000        | 161,000      | 23,603       | 137,397                                                     |
| Depreciation                            | -              | -            | 99,149       | (99,149)                                                    |
| Repairs and Maintenance                 | 52,500         | 52,500       | 6,162        | 46,338                                                      |
| Office                                  | 4,100          | 4,100        | 2,997        | 1,103                                                       |
| Other Expenses                          | 34,100         | 34,100       | 188,483      | (154,383)                                                   |
| Total Operating Expenses                | 1,165,387      | 1,165,387    | 4,906,770    | (3,741,383)                                                 |
| Operating Income (Loss)                 | (695,387)      | (695,387)    | 203,264      | 898,651                                                     |
| Non-Operating Revenue (Expense):        |                |              |              |                                                             |
| Grants                                  | 62,000         | 62,000       | -            | (62,000)                                                    |
| Property Taxes                          | 283,600        | 283,600      | 297,214      | 13,614                                                      |
| Interest Expense                        |                |              | (752)        | (752)                                                       |
| Total Non-Operating Revenues (Expenses) | 345,600        | 345,600      | 296,462      | (49,138)                                                    |
| Change in Net Position                  | \$ (349,787)   | \$ (349,787) | \$ 499,726   | \$ 849,513                                                  |

**CHESTER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF OPERATIONS - WATER FUND BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                         | Budget Amounts      |                     | Actual             | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|-----------------------------------------|---------------------|---------------------|--------------------|-------------------------------------------------------------|
|                                         | Original            | Final               |                    |                                                             |
| Operating Revenues:                     |                     |                     |                    |                                                             |
| Utility Sales                           | \$ 348,065          | \$ 348,065          | \$ 336,817         | \$ (11,248)                                                 |
| Other Operating Income                  | -                   | -                   | 28,971             | 28,971                                                      |
| Total Operating Revenue                 | <u>348,065</u>      | <u>348,065</u>      | <u>365,788</u>     | <u>17,723</u>                                               |
| Expenses:                               |                     |                     |                    |                                                             |
| Salaries and Benefits                   | 292,138             | 292,138             | 249,316            | 42,822                                                      |
| Insurance                               | 10,100              | 10,100              | 22,652             | (12,552)                                                    |
| Professional Services                   | 16,200              | 16,200              | 19,382             | (3,182)                                                     |
| Utilities                               | 122,600             | 122,600             | 116,064            | 6,536                                                       |
| Vehicles and Equipment                  | 37,200              | 37,200              | 5,898              | 31,302                                                      |
| Depreciation                            | -                   | -                   | 91,973             | (91,973)                                                    |
| Repairs and Maintenance                 | 16,800              | 16,800              | 1,753              | 15,047                                                      |
| Office                                  | 6,200               | 6,200               | 7,885              | (1,685)                                                     |
| Other Expenses                          | 19,550              | 19,550              | 10,589             | 8,961                                                       |
| Total Operating Expenses                | <u>520,788</u>      | <u>520,788</u>      | <u>525,512</u>     | <u>(4,724)</u>                                              |
| Operating Income (Loss)                 | <u>(172,723)</u>    | <u>(172,723)</u>    | <u>(159,724)</u>   | <u>12,999</u>                                               |
| Non-Operating Revenue (Expense):        |                     |                     |                    |                                                             |
| Interest Income                         | 115                 | 115                 | 179                | 64                                                          |
| Property Taxes                          | 57,900              | 57,900              | 70,010             | 12,110                                                      |
| Total Non-Operating Revenues (Expenses) | <u>58,015</u>       | <u>58,015</u>       | <u>70,189</u>      | <u>12,174</u>                                               |
| Change in Net Position                  | <u>\$ (114,708)</u> | <u>\$ (114,708)</u> | <u>\$ (89,535)</u> | <u>\$ 25,173</u>                                            |

**CHESTER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF OPERATIONS - SANITATION FUND BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                         | Budget Amounts |            | Actual     | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|-----------------------------------------|----------------|------------|------------|-------------------------------------------------------------|
|                                         | Original       | Final      |            |                                                             |
| Operating Revenues:                     |                |            |            |                                                             |
| Utility Sales                           | \$ 499,700     | \$ 499,700 | \$ 533,056 | \$ 33,356                                                   |
| Other Operating Income                  | 52,000         | 52,000     | 5,016      | (46,984)                                                    |
| Total Operating Revenue                 | 551,700        | 551,700    | 538,072    | (13,628)                                                    |
| Expenses:                               |                |            |            |                                                             |
| Salaries and Benefits                   | 276,170        | 276,170    | 251,971    | 24,199                                                      |
| Insurance                               | 10,100         | 10,100     | 22,847     | (12,747)                                                    |
| Professional Services                   | 24,200         | 24,200     | 13,117     | 11,083                                                      |
| Utilities                               | 24,100         | 24,100     | 35,612     | (11,512)                                                    |
| Vehicles and Equipment                  | 45,000         | 45,000     | 7,176      | 37,824                                                      |
| Depreciation                            | -              | -          | 153,460    | (153,460)                                                   |
| Repairs and Maintenance                 | 29,250         | 29,250     | 28,186     | 1,064                                                       |
| Office                                  | 6,250          | 6,250      | 7,163      | (913)                                                       |
| Other Expenses                          | 16,280         | 16,280     | 23,575     | (7,295)                                                     |
| Total Operating Expenses                | 431,350        | 431,350    | 543,107    | (111,757)                                                   |
| Operating Income (Loss)                 | 120,350        | 120,350    | (5,035)    | (125,385)                                                   |
| Non-Operating Revenue (Expense):        |                |            |            |                                                             |
| Interest Income                         | 1,265          | 1,265      | 2,558      | 1,293                                                       |
| Property Taxes                          | 77,700         | 77,700     | 102,071    | 24,371                                                      |
| Total Non-Operating Revenues (Expenses) | 78,965         | 78,965     | 104,629    | 25,664                                                      |
| Change in Net Position                  | \$ 199,315     | \$ 199,315 | \$ 99,594  | \$ (99,721)                                                 |

**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> | <u>June 30, 2014</u> |
|------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| District's Proportion of the Net Pension Liability/(Asset)                                                             | 0.020248%            | 0.774%               |
| Districts Proportionate Share of the Net Pension Liability/(Asset)                                                     | \$ 555,506           | \$ 438,561           |
| District's Covered-Employee Payroll                                                                                    | \$ 279,023           | \$ 214,425           |
| District's Proportionate Share of the Net Pension Liability/(Asset) as<br>a Percentage of its Covered-Employee Payroll | 199.09%              | 204.53%              |
| Plan's Proportionate Share of the Fiduciary Net Position as a<br>Percentage of the Plan's total Net Pension Liability  | 72.99%               | 76.09%               |

**Notes to Schedule:**

Only two fiscal years are 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> | <u>June 30, 2014</u> |
|------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| District's Proportion of the Net Pension Liability/(Asset)                                                             | 0.015071%            | 0.01003%             |
| Districts Proportionate Share of the Net Pension Liability/(Asset) \$                                                  | 616,119              | \$ 574,923           |
| District's Covered-Employee Payroll \$                                                                                 | 482,310              | \$ 309,640           |
| District's Proportionate Share of the Net Pension Liability/(Asset) as<br>a Percentage of its Covered-Employee Payroll | 127.74%              | 185.67%              |
| Plan's Proportionate Share of the Fiduciary Net Position as a<br>Percentage of the Plan's total Net Pension Liability  | 60.13%               | 68.52%               |

**Notes to Schedule:**

Only two fiscal years are 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> | <u>Fiscal Year 2013-14</u> |
|----------------------------------------------------------------------|----------------------------|----------------------------|
| Actuarially Determined Contribution                                  | \$ 67,847                  | \$ 58,978                  |
| Contributions in Relation to the Actuarially Determined Contribution | <u>(66,404)</u>            | <u>(87,918)</u>            |
| Contribution Deficiency (Excess)                                     | <u>\$ 1,443</u>            | <u>\$ (28,940)</u>         |
| <br>Covered Employee Payroll                                         | <br>\$ 279,023             | <br>\$ 214,425             |
| Contributions as a Percentage of Covered-Employee Payroll            | 23.80%                     | 41.00%                     |

**Notes to Schedule:**

Only two fiscal years are 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> | <u>Fiscal Year 2013-14</u> |
|----------------------------------------------------------------------|----------------------------|----------------------------|
| Actuarially Determined Contribution                                  | \$ 101,729                 | \$ 59,979                  |
| Contributions in Relation to the Actuarially Determined Contribution | <u>(123,589)</u>           | <u>(112,382)</u>           |
| Contribution Deficiency (Excess)                                     | <u>\$ (21,860)</u>         | <u>\$ (52,403)</u>         |
| <br>Covered Employee Payroll                                         | <br>\$ 482,310             | <br>\$ 309,640             |
| Contributions as a Percentage of Covered-Employee Payroll            | 25.62%                     | 36.29%                     |

**Notes to Schedule:**

Only two fiscal years are 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 16, 2016.

**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 to be material weaknesses. See findings 2016-1 and 2016-2.

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 to be significant deficiencies. See finding 2016-3.

### **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**  
November 16, 2016

# **SCHEDULE OF FINDINGS AND RESPONSES**

**CHESTER PUBLIC UTILITY DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**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:** 1 Significant Deficiency, 2 Material Weaknesses.
3. **Material Noncompliance Noted:** None

**CHESTER PUBLIC UTILITY DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Material Weakness**

**Finding 2016-1: 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, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Material Weakness**

**Finding 2016-2 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, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Significant Deficiency**

**Finding 2016-3: 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 to ensure that 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, 2015 AUDIT REPORT)  
JUNE 30, 2016**

**Finding 2015-1**

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

Status

Ongoing – See current year finding 2016-1.

**Finding 2015-2**

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 2016-2.

**Finding 2015-3**

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

Status

Not implemented. See current year finding 2016-3.

**CHESTER PUBLIC UTILITY DISTRICT  
CORRECTIVE ACTION PLAN  
JUNE 30, 2016**

**Person Monitoring Corrective Action Plan**  
General Manager, Frank Motzkus

**Finding 2016-1 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 2016-2 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, 2016**

**Finding 2016-3 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, 2017