SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Steve Mack, General Manager

Meeting Date: February 2, 2017

Subject: DISCUSSION/ACTION RE RESOLUTION 17-02, ACCEPTING THE FINAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2016

RECOMMENDED ACTION:

Approve Resolution 17-02, Accepting the Final Audit for the Fiscal Year Ending June 30, 2016.

FISCAL IMPACT:

(Preparation of the FY 15-16 Audit cost $8,000.)

DISCUSSION:

Our FY 2015-16 Audit was conducted by Michael Celentano, CPA, the second audit of a three-year contract with Mr. Celentano. He will be available by telephone during the meeting to answer any questions you have about the Audit.

The Audit presents the District's financials using a partial accrual method of accounting, which differs from the cash presentation staff prepares for the Board on a quarterly basis.

Staff recommends the Board approve Resolution 17-02, Accepting the Final Audit for the Fiscal Year Ending June 30, 2016.

Resolution No. 17-02

A Resolution of the Board of Directors of the Sweetwater Springs Water District Accepting the Final Audit for the Fiscal Year Ending June 30, 2016

WHEREAS, the Sweetwater Springs Water District is required to have annual audits performed relative to the spending of public funds; and

WHEREAS, Michael Celentano, CPA provides said auditing service and is under contract with the District to perform such audits.

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of the Sweetwater Springs Water District has reviewed the audit as prepared by Michael Celentano, CPA for the year ending June 30, 2016, and accepts the information contained therein.

I hereby certify that the foregoing is a full, true, and correct copy of a Resolution duly and regularly adopted and passed by the Board of Directors of the SWEETWATER SPRINGS WATER DISTRICT, Sonoma County, California, at a meeting held on February 2, 2017, by the following vote.

Director	Aye	No
Sukey Robb-Wilder	_____	_____
Tim Lipinski	_____	_____
Rich Holmer	_____	_____
Gaylord Schaap	_____	_____
Pip Marquez de la Plata	_____	_____

_____
Sukey Robb-Wilder
President of the Board of Directors

_____
Attest: Julie A. Kenny
Clerk of the Board of Directors

MICHAEL A. CELENTANO
Certified Public Accountant
PO Box 206
530-629-3015 Willow Creek Ca 95573 maccpa@pacific.net

To the Management and
The Board of Directors of
Sweetwater Springs Water District

In planning and performing my audit of the financial statements of the business-type activities of Sweetwater Springs Water District as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, I considered Sweetwater Springs Water District 's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sweetwater Springs Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Sweetwater Springs Water District's internal control.

My 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 discussed below, I identified certain deficiencies in internal control that I consider to be 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. I did not identify any deficiencies in internal control that I consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the following deficiency in Sweetwater Springs Water District's internal to be significant deficiency:

District Structure

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remains involved in the financial affairs of the District to provide oversight and independent review functions.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Michael A Celentano
Certified Public Accountant

December 14, 2016

MICHAEL A. CELENTANO
Certified Public Accountant
PO Box 206
530-629-3015 Willow Creek Ca 95573 maccpa@pacific.net

To the Management and
The Board of Directors of
Sweetwater Springs Water District

I have audited the financial statements of the business-type activities of Sweetwater Springs Water District for the year ended June 30, 2016. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated December 14, 2016. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sweetwater Springs Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

> Management's estimate of the other postemployment benefits payable and pension liabilities are based on industry guidelines and actuarial tables. I evaluated the key factors and assumptions used to develop these other postemployment benefits payable and pension liabilities in determining that it is reasonable in relationship to the financial statements taken as a whole

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated December 14, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of management and the Board of Directors of Sweetwater Springs Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Michael A Celentano
Certified Public Accountant

December 14, 2016

SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2016

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MICHAEL A. CELENTANO
Certified Public Accountant
PO Box 206
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Board of Directors
Sweetwater Springs Water District
Guerneville, California

Independent Auditor's Report

I have audited the accompanying financial statements of the business-type activities of Sweetwater Springs Water 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.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Sweetwater Springs Water District as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Michael A Celentano
Certified Public Accountant

December 14, 2016

Management Discussion & Analysis
(Unaudited)

Management has prepared this financial overview of the activities of the Sweetwater Springs Water District for the fiscal year ended June 30, 2016. It serves as an introduction to the financial statements contained in the Audit Report and a summary of major activities of the District for the fiscal year. Much of the analysis is comparative to last year's activity.

The Discussion begins with a selection of financial activities that management considers worthy of special note for FY 2015-16. The condensed financial statements that follow provide a complete financial summary of the Audit Report. Following the financial statements are additional details on capital spending, District debt and future plans of the District.

I. SELECTED FINANCIAL ACTIVITIES IN 2015-16

Net income (change in Net Position) is more than last year. Net income for the year before depreciation expense was $1,304,528 compared to $1,106,644 in FY 2014-15. After depreciation, the District's net position was $543,072. (p. 7.)

Surplus cash transferred to CIRF was $320,000, the same amount that was budgeted. (p. 10)

District reserves are down. District funds available for capital improvement projects were $1,051,606 at FYE 16, compared to $1,774,258 at FYE 2015. (p. 9.)

Net pension liability (a non-cash expense) decreased from a total of $734,115 at FYE 2015 to a total of $560,776 at FYE 2016. The District began accounting for future unfunded pension liability in FY 2014-15 in accordance with GASB 68. "Catching up" on this liability significantly impacted the District's net position for that FY 2014-15. Beginning in FY 2015-16, net pension liability will only impact net position to the extent that there are changes to this liability from the prior year.

Selected revenues and expenses:

	FY 2015-16	FY 2014-15
Water Sales:	$2,258,205	$2,202,259
Operating Expenses (before depreciation):	$1,446,138	$1,614,952
Capital Improvement Projects:	$1,149,979	$1,036,829
Debt Payments (principal + interest):	$1,028,326	$970,693

Other Notes for FY 2015-16:

(1) USDA Bond. At FYE the District has applied but not yet been approved for additional bond funding from USDA totalling $2,579,000 at a 2.25% interest rate. This potential funding has not been included in long range budget forecasts.

II. BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The two statements contained in this Management's Discussion and Analysis are condensed versions of the statements in the Audit Report:

The Statement of Net Position is comparable to a Balance Sheet. It includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the current fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position, comparable to an Income Statement. This statement measures the success of the District's operations over the past fiscal year and can be used to determine the District's creditworthiness and whether the District has successfully recovered all its costs through its user fees and other charges.

Not included in this Management's Discussion and Analysis but required in the Audit report is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

STATEMENT OF NET POSITION

A summary of the District's Statement of Net Position in FY 2015-16 compared to FY 2014-15 is presented in Table 1 below. Generally, an increase in the District's net position is a good indicator of whether its financial health is improving or deteriorating. The District's net position increased by $543,071 to $11,755,136 at FYE 2016, up from $11,212,065 at FYE 2015, largely due to a decrease in pension liability and a decrease in outstanding debt that more than offset decreases to cash on hand.

Table 1
Condensed Statement of Net Position

	FYE 2016	FYE 2015	$ Change	% Change
Cash	2,686,459	3,421,874	(735,415)	-21.5%
Capital Assets	21,152,170	20,695,114	457,056	2.2%
Other Assets	405,876	384,944	20,932	5.4%
Total Assets	**24,244,505**	**24,501,932**	**(257,427)**	**-1.1%**
Bond & Loan principal debt outstanding	11,660,156	12,263,064	(602,908)	-4.9%
Other long-term liabilities	633,500	802,846	(169,346)	-21.1%
Other short-term liabilities	195,713	223,957	(28,244)	-12.6%
Total Liabilities	**12,489,369**	**13,289,867**	**(800,498)**	**-6.0%**
Net investment in capital assets	9,492,014	8,432,050	1,059,964	12.6%
Restricted	0	15,123	(15,123)	-100.0%
Unrestricted	2,263,122	2,764,892	(501,770)	-18.1%
Total Net Position	**11,755,136**	**11,212,065**	**543,071**	**4.8%**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position provides additional information concerning this year's revenues and expenses that impacted net position. Table 2 below compares the District's Statement of Revenues, Expenses, and Changes in Net Position in FY 2015-16 versus FY 2014-15.

	FYE 2016	FYE 2015	$ Change	% Change
Water Sales	2,258,205	2,202,259	55,946	2.5%
Property Tax Assessment (flat charge)	774,640	812,551	(37,911)	-4.7%
Non-Operating Revenues	143,240	141,679	1,561	1.1%
Total Revenues	**3,176,085**	**3,156,488**	**19,597**	**0.6%**
Operating Expenses:				
Salaries & Benefits	980,392	1,008,822	(28,430)	-2.8%
Services & Supplies	465,746	606,130	(140,384)	-23.2%
Other			0	-
Total Operating Expenses	**1,446,138**	**1,614,952**	**(168,814)**	**-10.5%**
Non-Operating Expenses:				
Interest	425,419	433,658	(8,239)	-1.9%
Other	0	1,234	(1,234)	0.0%
Total Non-Operating Expenses	**425,419**	**434,892**	**(9,473)**	**-2.2%**
Total Expenses	**1,871,557**	**2,049,844**	**(178,287)**	**-8.7%**
Income before Other Items and Depreciation Expense	**1,304,528**	**1,106,644**	**197,884**	**17.9%**
Other income	0	0	0	-
Other expense	0	(792,133)	792,133	0.0%
Depreciation Expense	(761,456)	(720,630)	(40,826)	5.7%
Change in Net Position (Net Income)	**543,072**	**(406,119)**	**949,191**	**-233.7%**

Income before Other Items and Depreciation Expense was $197,884 more than last fiscal year.

Total **revenues** were $3,176,085, slightly higher ($19,597) than last year. Water Sales were up from last year. As in recent years, the District increase rates by 3%, even as District customers continued to conserve. Actual water usage was down again in FY 2015-16. Flat charge revenue, collected via property tax bills, is expected to remain constant from year to year at around $750,000. This year they exceeded that amount by $24,640. Non-operating revenues - (1) interest income; (2) rent received from cell tower tenants on the District's Mt. Jackson property; and (3) construction of new services during the fiscal year was about the same as last year, totalling $143,240.

On the expense side, total **expenses** decreased by $178,287, or 8.7%, mostly due to a decrease in Services & Supplies. This is not unusual -- repairs to the District's distribution system can vary widely from year to year.

Income after accounting for "Other Items" (Change in Net Position) was $543,072, compared to a *loss* of $406,119 in FY 2014-15. Last year marked the first year the District was required to account for unfunded future pension liabilitiy. Setting up this (non-cash) liability created in FY 2014-15 resulted in a one-time "other expense" of $792,133. Depreciation Expense, another non-cash expense, continues to

rise each year as the District continues with annual capital improvements that depreciate over a 40-year life.

III. CAPITAL SPENDING

In FY 2015-16, the District spent $1,178,919 on construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2015-16	% complete at FYE 2016
CIP 2016	Replace approximately 3,900 lf of existing mainline and 75 services along Canyon 1 Rd., Memory Ln., and Memory Park Rd. in Rio Nido	$1,026,584	100% (Project total: $1,091,501)
CIP 2017	Replace approximately 3,500 lf of existing main and 70 services on Old River Road at Morningside east to the eastern section of Foothill Drive. Includes Orchard Road and River Road on the river side of the road. Feeds Rio Nido.	$123,395	1% complete (Project total: $1,339,884)
Tank/Facilities Improvements	(Various site improvements)	$28,940	N/A
		$1,178,919	

In addition to these capital projects, the District spent a total of $36,265 on a new truck, a generator, and two laptops. Also, $36,042 was spent on various in-house large maintenance projects.

IV. DISTRICT DEBT/SOURCES OF DEBT REPAYMENT

At the beginning of FY 2015-16, the District owed a total of $12,263,064 in bond debt, state loans, and a private placement loan. During the year the District made $602,907 in principal payments.

The table below summarizes activity on the bonds and loans in FY 2015-16:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2015	PRINCIPAL PAID FY 2015-16	PRINCIPAL OWED FYE 2016
USDA G.O. Bonds	$1,647,875 (2014)	$1,647,875	$25,147	$1,622,728
Capital One Bonds	7,993,000 (2013)*	$7,253,000	$312,000	$6,941,000
State Loans	$3,013,500 (1996)	$1,049,628	$140,120	$909,508
Private Placement Loan	$3,000,000 (2008)	$2,312,561	$125,640	$2,186,921
		$12,263,064	$602,907	$11,660,157

With interest, actual payments on District bond and loan debt were $1,028,326. The District allocates revenue from flat charges, the CDR[1] portion of the Water Sales revenue, and capital interest to pay for annual principal and interest on debt, itemized for FY 2015-16 as shown below:

Flat Charges:	$774,640
CDR Revenue:	$261,565
Capital interest:	$8,367
Total:	**$1,044,572**

The surplus (shortfall) from these sources of revenue -- $16,246 surplus in FY 2015-16 -- is added to (subtracted from) *District reserves*.

V. DISTRICT RESERVES AND RESERVES ABOVE POLICY

The District adopted a Reserve Policy in 2009 that calls for leaving a designated amount of District funds in reserve for emergencies. All other District funds are considered "reserves above policy" and available for spending/capital improvement projects. At fiscal year end, District funds at the County totalled $2,430,883.03. District policy reserves were $1,207,907, leaving $1,051,606[2] available for spending ("reserves above policy"). Below is a history of the District's reserves above policy since the adoption of the District Reserve Policy:

Fiscal Year End 2010:	$3,238,830
Fiscal Year End 2011:	$4,023,083
Fiscal Year End 2012:	$3,475,569
Fiscal Year End 2013:	$3,206,882
Fiscal Year End 2014:	$2,507,800
Fiscal Year End 2015:	$1,774,258
Fiscal Year End 2016:	$1,051,606

District reserves above policy are going down, as anticipated. The District's long range budget forecasts depleting a portion of District reserves above policy each year to accomplish the projects of the 2016-23 Capital Improvement Program needed to get the water system to an acceptable standard.

VI. ECONOMIC FACTORS, PROJECTED CAPITAL EXPENDITURES/SOURCES OF FUNDING

The bulk of the District's income is tied to water sales and flat charge revenue, both unaffected in any major way by economic events. District reserves are conservatively managed via the County of Sonoma's investment pool. Interest rates remain low, but invested principal remains untouched and the loss in interest revenue is manageable.

Water sales revenue has been impacted from state and local water conservation compaigns triggered in part by a multi-year drought. The loss of revenue due to conservation has also been manageable, due to the District's water rate structure that provides revenue stability regardless of water use.

The District's 2016-23 Capital Improvement Program identifies over $5.6 million of additional capital projects that still need to be completed to bring District facilities to an acceptable standard.[3] According to the District's long-term budget annual capital construction costs will average about $875,000. The District's capital construction is funded from four sources:

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[1] CDR stands for "Capital Debt Reduction".
[2] Source: 4th Quarter Actual vs. Budgeted report.
[3] Source: 2016-23 Capital Improvement Program

- **Surplus revenue**. The District has a plan to increase surplus revenue to $500,000 annually. In FY 2015-16 it was budgeted at $320,000.
- **Grants**. The District is not anticipating any grant revenue as of FYE.
- **Loan proceeds.** The District's indebtedness was approximately $11.6 million at the end of FY 2015-16. At FYE the District has applied for $2,579,000 in additional bond indebtedness through USDA at a rate of 2.25%.
- **Reserves.** Reserves available for capital spending ("reserves above policy") were at $1,051,606 at FYE 2016.

For this period (2016-23), the District's longterm budget calls for depleting District reserves above policy. Once reserves above policy are depleted - projected to be around FY 2019-20, the District's plan calls for a shift to a *sustainable capital program* which consists of smaller projects that can be funded fully with District surpluses and/or years in which no capital projects are scheduled.

MORE ABOUT DISTRICT SURPLUS REVENUES

The District is in the midst of a long-term budget plan to increase District surplus revenues to a sustainable $500,000 annually.[4] The plan contemplates nine years of 3% water increases. FY 2015-16 was the fifth year of this plan. Below is a table of *budgeted* operating surpluses from recent years (acutal surpluses may vary):

Year	Year of 9-year Budget Plan (3% water increase each year)	Budgeted Operating Surplus
F 2010-11	N/A	$240,000
FY 2011-12	1 of 9	$240,000
FY 2012-13	2 of 9	$220,000
FY 2013-14	3 of 9	$390,000
FY 2014-15	4 of 9	$260,000
FY 2015-16	5 of 9	$320,000
FY 2016-17	6 of 9	$330,000

As discussed above, budgeted operating surpluses have been somewhat impacted by successful water conservation efforts on the part of state and local governments triggered in part by ongoing drought.

VI. REQUEST FOR INFORMATION

This financial report is designed to provide our customers 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 the Sweetwater Springs Water District at P.O. Box 48, Guerneville, California, 95446.

[4] "Sustainable Funding for Needed Capital Improvements", dated April 18, 2011.

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 950,265	$ 1,682,310
Accounts receivable	300,951	279,177
Flat charges receivables	42,530	43,372
Inventory	56,395	56,395
Prepaid expenses	6,000	6,000
TOTAL CURRENT ASSETS	1,356,141	2,067,254
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	123,395	64,917
Buildings and improvements	29,721,701	28,601,260
Machinery and equipment	577,389	602,907
Less-accumulated depreciation	(9,413,368)	(8,717,023)
TOTAL CAPITAL ASSETS, NET	21,152,170	20,695,114
OTHER NONCURRENT ASSETS		
Restricted cash and investments	1,736,194	1,739,564
TOTAL OTHER NONCURRENT ASSETS	1,736,194	1,739,564
TOTAL ASSETS	24,244,505	24,501,932
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	9,431	6,685
Accrued wages	2,852	23,660
Accrued interest	157,724	165,358
Customer deposits	15,576	13,131
Road maintenance obligations	10,130	15,123
Current portion of long term debt	622,829	602,908
TOTAL CURRENT LIABILITIES	818,542	826,865
DEFERRED INFLOWS		
Pension expense	60,072	154,375
TOTAL DEFERRED INFLOWS	60,072	154,375
LONG TERM LIABILITIES		
Compensated absences	72,953	68,628
Net pension liability	500,704	579,740
General obligation bonds payable	8,216,984	8,563,728
California safe drinking water bonds payable	765,102	909,508
Citizens business bank (COP) payable	2,055,241	2,186,920
Other postemployment benefits payable	(229)	103
TOTAL LONG TERM LIABILITIES	11,610,755	12,308,627
TOTAL LIABILITIES	12,489,369	13,289,867
NET POSITION		
Net Investment in capital assets	9,492,014	8,432,050
Unrestricted	2,263,122	2,780,015
TOTAL NET POSITION	$ 11,755,136	$ 11,212,065

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2016 and 2015

	Totals June 30, 2016	Totals June 30, 2015
Operating Revenues		
Charges for services	$ 2,258,205	$ 2,202,259
Total Operating Revenues	2,258,205	2,202,259
Operating Expenses		
Salaries and employee benefits	980,392	1,008,822
Service and supplies	465,746	607,364
Depreciation	761,456	720,630
Total Operating Expenses	2,207,594	2,336,816
Operating Income (Loss)	50,611	(134,557)
Non-Operating Revenues (Expenses)		
Interest income	17,518	18,757
Rents	108,747	78,456
Flat charges	774,640	812,550
Other non-operating revenue	16,975	44,466
Interest expense	(425,419)	(433,658)
Total Non-Operating Revenues (Expenses)	492,461	520,571
Net Income (Loss) Before Capital Contributions	543,072	386,014
Capital Contributions		
Capital grants		
Total Capital Contributions		
Change in Net Position	543,072	386,014
Total Net Position, Beginning of Fiscal Year	11,212,064	11,618,183
Prior Period Adjustment for GASB 68 Net Pension Liability	-	(792,133)
Total Net Position, Beginning of Fiscal Year, Restated	11,212,064	10,826,050
Total Net Position, End of Fiscal Year	$ 11,755,136	$ 11,212,064

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016 and 2015

	Totals June 30, 2016	Totals June 30, 2015
Cash Flows From Operating Activities		
Cash received from customers	$ 2,236,431	$ 2,223,831
Payments to suppliers for goods and services	(461,555)	(552,989)
Payments to employees and related items	(1,001,200)	(1,120,141)
Net cash flows provided by operating activities	773,676	550,701
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,218,512)	(1,102,529)
Proceeds from issuance of long term debt	-	-
Payment on long term debt	(602,908)	(556,007)
Net change in pension liability	(173,339)	
Interest payments	(433,053)	(414,686)
Net cash flows (used) by capital and related financing activities	(2,427,812)	(2,073,222)
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	775,481	827,994
Miscellaneous non-operating revenues	16,975	44,466
Net cash provided by non-capital and related financing activities	792,456	872,460
Cash Flows From Investing Activities		
Rents	108,747	78,456
Interest income	17,518	18,757
Net cash flows provided by investing activities	126,265	97,213
Net Increase (Decrease) in Cash and Investments	(735,415)	(552,848)
Cash and Investments, Beginning of Fiscal Year	3,421,874	3,974,722
Cash and Investments, End of Fiscal Year	$ 2,686,459	$ 3,421,874
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Position:		
Cash and investments	$ 1,023,070	$ 1,682,310
Restricted cash and investments	1,663,389	1,739,564
	$ 2,686,459	$ 3,421,874
Supplemental Disclosures:		
Interest expense during the fiscal year	$ 425,419	$ 433,658
Interest capitalized during the fiscal year	$ -	$ -

(continued)

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016 and 2015

(Continued)

	Totals June 30, 2016	Totals June 30, 2015
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ 50,611	$ (134,557)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	761,456	720,630
Salaries and employee benefits		(58,017)
(Increase) Decrease in Operating Assets:		
Accounts receivable	(21,774)	21,641
Inventory		
Prepaid expenses		(6,000)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	2,746	(8,651)
Accrued wages	(20,808)	4,406
Compensated absences	4,325	9,828
Customer deposits payable	2,445	(69)
Road maintenance obligations	(4,993)	5,008
Other postemployment benefits payable	(332)	(3,518)
Total Adjustments	723,065	685,258
Net Cash Provided by Operating Activities	$ 773,676	$ 550,701

See accompanying notes to basic financial statements

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Sweetwater Springs Water District (District) was formed on December 6, 1988 with Resolution #88-2184 through an election under Section 30290 of the California State Water Code. The District supplies water services to residential and commercial users, and provides for connections to and the servicing of the delivering system. The District's Board of Directors has the responsibility of overseeing the financial activities of the District.

The District accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments, in accordance with the uniform system of accounts for water utility special enterprise districts as prescribed by the State Controller in compliance with the government code of the State of California.

B. Basis of Accounting

The District follows the accrual basis of accounting. The District's policy is to record all assets, liabilities, revenues, and expenses on the accrual basis of accounting and the flow of economic resources measurement focus. Under this method, revenue is recognized when earned and expenses are recognized when the related liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

C. Proprietary Fund Accounting

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

In accordance with GASB Statement No. 20 and No. 62, the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

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

D. Budgetary Reporting

The annual budget is prepared in accordance with the basis of accounting utilized by the District. The budget is not legally required and therefore budget to actual information has not been presented, either as a statement or required or other supplementary information.

Note 1: Summary of Significant Accounting Policies (Continued)

E. **Receivables**

Bad debts associated with accounts receivable for services are tracked each year by staff, but have been deemed immaterial. Other receivables, if any, are shown at the anticipated recoverable amount, unless otherwise noted.

F. **Flat Charges Receivable**

Flat charges receivable represent direct charges owed to the District by property owners.

G. **Inventories**

Inventory consists primarily of water meters, water pipes, valves and fittings. Inventory is valued at estimated cost.

H. **Capital Assets**

Property, plant, and equipment are recorded at cost or estimated historical cost if actual cost is not available. Contributed assets are recorded at their fair value at the time of transfer to the District. Assets with a value of $1,000 or less are expensed in the years acquired.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. The range of estimated useful lives are as follows:

Water system	40 years
Leasehold improvements	7 years
Equipment	3-5 years

I. **Vacation and Sick Leave**

Vacation pay is accrued by the District in the period earned. At June 30, 2015 and 2014, accrued vacation pay amounted to $72,953 and $68,628 respectively.

J. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. **New Accounting Pronouncement**

The District has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement Nos. 68, and 71 during the fiscal year ended June 30, 2015.

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental Accounting Standards Board Statement No. 68 and 71

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting of Pension Plans." and Statement 71 " Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68" These Statements are effective for periods beginning after June 15, 2014. These Statements will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

Note 2: Cash and Investments

The cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of District debt instruments or District agreements.

The District's cash and investments are comprised of the following at June 30, 2016:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	140,592	81,445	222,037
Cash and investments	809,173	1,654,749	2,463,922
Total Cash and Investments	$ 950,265	$ 1,736,194	$ 2,686,459

Statement of Net Position:	
Cash and investments	$ 950,265
Restricted cash and investments	1,736,194
Total	$ 2,686,459

Investments Authorized by the California Government Code and the District's Investment Policy

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

Note 2: Cash and Investments (Continued)

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper - Selected Agencies	270 days	25%	10%
Commercial Paper - Other Agencies	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements & Securities Lending Agreements	92 days	20 % of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	None
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	$ 50 Million

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. The District manages its exposure to interest rate risk by investing a majority of its cash and investments in the County Pooled Investment Fund.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Totals	or Less	Months	Months	Months	Months	Months
County Pooled Investment Fund	$ 2,463,922	$ 2,469,922	$ -	$ -	$ -	$ -	$ -
	$ 2,463,922	$ 2,469,922	$ -	$ -	$ -	$ -	$ -

Note 2: Cash and Investments (Continued)

Disclosures Relating to 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Rating	Disclosure	AAA	AA	A	Rated
County Pooled Investment Fund	$ 2,463,922	N/A	$ -	$ -	$ -	$ -	$ 2,463,922
Total	$ 2,463,922		$ -	$ -	$ -	$ -	$ 2,463,922

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments that represent 5% or more of total District investments (other than Sonoma County Investment Pool).

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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, the District's deposits with financial institutions were not in excess of federal depository insurance limits.

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 the Sonoma County Investment Pool).

Note 3: Capital Assets

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

	Balance at July 1, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	64,917	123,395		(64,917)	123,395
Total capital assets, not being depreciated	207,970	123,395		(64,917)	266,448
Capital Assets, being depreciated:					
Building and improvements	28,601,260	1,120,441			29,721,701
Machinery and equipment	602,907	39,593	(65,111)		577,389
Total capital assets, being depreciated	29,204,167	1,160,034	(65,111)		30,299,090
Accumulated depreciation:					
Building and improvements	(8,192,247)	(741,474)			(8,933,721)
Machinery and equipment	(524,776)	(19,982)	65,111		(479,647)
Total accumulated depreciation	(8,717,023)	(761,456)	65,111		(9,413,368)
Total depreciable assets, net	20,487,144	398,578			20,885,722
Total capital assets, net	$ 20,695,114	$ 521,973	$ -	$ (64,917)	$ 21,152,170

Depreciation expense of $761,456 was incurred and recorded as an operating expense for June 30, 2016.

Note 4: Long-Term Debt

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2016:

	Balance at July 1, 2015	Additions	Repayments	Balance at June 30, 2016	Due Within One Year
2003 General Obligation Bonds	1,647,875		(25,147)	1,622,728	25,744
2013 General Obligation Refunding Bonds	7,253,000		(312,000)	6,941,000	321,000
California Safe Drinking Bonds	1,049,628		(140,120)	909,508	144,405
Citizens Business Bank Certificates of Participation	2,312,561		(125,641)	2,186,920	131,680
Other Postemployment Benefits	103	7,808	(8,140)	(229)	
Total	$ 12,263,167	$ 7,808	$ (611,048)	$ 11,659,927	$ 622,829

Note 4: Long-Term Debt (Continued)

2003 General Obligation Bonds

On April 29, 2003, and pursuant to Resolution No. 03-15, the District authorized the issuance of General Obligation Bond of 1990, Series 2003 in the principal amount of $4,000,000. The bond was issued as a single fully registered bond and matures in installments of the same principal amounts on the same dates as the registered bonds it represents. Interest on the bond is 4.5% per annum, payable commencing on March 1, 2004 and semi-annually thereafter on September 1st and March 1st in each year to maturity. During the fiscal year ended June 30, 2014, the District prepaid $1,994,000 of the outstanding principal on the 2003 General Obligation Bonds from a portion of the proceeds of the 2013 General Obligation Refunding Bonds. The first installment payment that was due September 1, 2014 was deferred until September 1, 2015. The accrued interest of $36,875, as a result of the deferred payment date, was added to the principal balance for a total outstanding balance of $1,647,875.

The scheduled annual minimum debt service requirements at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$ 25,744	$ 38,540	$ 64,284
2018	26,355	37,929	64,284
2019	26,981	37,303	64,284
2020	27,622	36,663	64,285
2021	28,278	36,007	64,285
2022-2026	151,789	169,643	321,432
2027-2031	170,691	150,751	321,442
2032-2036	191,945	129,506	321,451
2037-2041	215,849	105,616	321,465
2042-2046	242,728	78,751	321,479
2047-2051	272,953	48,541	321,494
2052-2055	241,793	14,568	256,361
Total	$ 1,622,728	$ 883,818	$ 2,506,546

2013 General Obligation Refunding Bonds

On August 1, 2013, the District issued $7,993,000 of General Obligation Refunding Bonds bearing interest of 4.50% and payable semi-annually on September 1 and March 1, maturing on September 1, 2033. The proceeds of the Bonds were used to (i) prepay, in full, the 1992 General Obligation Bonds; (ii) partial prepayment of the 2003 General Obligation Bonds, and (iii) pay the costs of issuing the Bonds. The outstanding principal balance of the 2013 General Obligation Refunding Bonds at June 30, 2015 was $7,553,000.

$7,821,765 from the 2013 General Obligation Refunding Bonds was placed in an irrevocable trust that is to be used to service the future debt requirements of the 1992 General Obligation Bonds and the 2003 General Obligation Bonds. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $648,545. The aggregate difference in debt service between the old and new debt is $923,427.

The District defeased the 1992 General Obligation Bonds by placing a portion of the proceeds of the 2013 General Obligation Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the 1992 General Obligation Bonds. Accordingly, the trust account assets and the liability for the defeased 1992 General Obligation Bonds is not included in the District's financial statements.

Note 4: Long-Term Debt (Continued)

2013 General Obligation Refunding Bonds (Continued)

The scheduled annual minimum debt service requirements at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$ 321,000	$ 244,098	$ 565,098
2018	332,000	232,344	564,344
2019	343,000	220,194	563,194
2020	359,000	207,558	566,558
2021	368,000	194,472	562,472
2022-2026	2,063,000	758,790	2,821,790
2027-2031	2,445,000	353,790	2,798,790
2032-2033	710,000	236,328	946,328
Total	$ 6,941,000	$ 2,447,574	$ 9,388,574

California Safe Drinking Bonds Payable

On June 24, 1993 the State Department of Water Resources provided a $2,870,000 and $400,000 loan to the District under the Safe Drinking Water Bond Act of 1986. The project financed by this loan consists of construction of three wells, interconnection of the system's service area, and construction of five storage facilities and appurtenances.

The bonds bear interest at 2.955% and mature on April 1, 2021 and 2022. Principal payments are due semi-annually on October 1 and April 1 including interest. A 5% administrative fee is included in the principal amount. The balances at June 30, 2016 are $800,766 and $108,743 respectively.

The scheduled annual minimum debt service requirements at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$ 123,909	$ 26,389	$ 150,298
2018	127,549	22,709	150,258
2019	131,346	19,069	150,415
2020	135,235	15,272	150,507
2021	139,298	11,383	150,681
2022	143,429	10,510	153,939
Total	$ 800,766	$ 105,332	$ 906,098

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$ 20,497	$ 3,057	$ 23,554
2018	21,101	2,453	23,554
2019	21,729	1,825	23,554
2020	22,373	1,181	23,554
2021	23,043	511	23,554
Total	$ 108,743	$ 9,027	$ 117,770

Note 4: Long-Term Debt (Continued)

Citizens Business Bank Certificates of Participation Payable

On July 3, 2008, Citizens Business Bank as assigned from Municipal Finance Corporation provided a $3,000,000 loan to the District in the form of Certificates of Participation.

The Certificates of Participation bear interest at 4.75% and mature on August 1, 2028. Principal and interest payments are due semi-annually on February 1st and August 1st in the amount of $117,007. The balance at June 30, 2016 is $2,186,921.

The scheduled annual minimum debt service requirements at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$ 131,680	$ 102,333	$ 234,013
2018	138,009	96,004	234,013
2019	144,642	89,371	234,013
2020	151,594	82,419	234,013
2021	158,881	75,133	234,014
2022-2026	916,560	253,506	1,170,066
2027-2029	545,555	39,479	585,034
Total	$ 2,186,921	$ 738,245	$ 2,925,166

Note 5: Operating Leases

The District has entered into an operating lease arrangement as lessee for the District offices. The terms of the lease is for five years with an option to extend for seven, one year periods. The initial five year lease expired on July 31, 2004. The District's current monthly lease expense for the District offices is $2,295. On May 6, 2014, the District renegotiated the office lease. The new lease commences August 1, 2014 and expires on July 31, 2017, at a cost of $2,295 per month. The new lease has an option to expend for one additional term of three years.

The District has also entered into an operating lease arrangement as lessee for a postage machine. The term of the lease is five years, beginning in October 2015. The District's current quarterly lease expense for the postage machine is $302.

The total rental payments for all leasing arrangements charged to expenses were $29,012 and $29,842 for June 30, 2016 and 2015 respectively.

Note 6: Employees Retirement Plan (Defined Benefit Pension Plan)

General Information about the Pension Plan

Plan Description, Benefits Provided and Employees Covered

The plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be

obtained in Appendix B of the June 30, 2014 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate is 6.887 percent of annual pay and the average employer's contribution rate is 11.302 percent of annual payroll for the 2% @ 55 plan and the active employee contribution rate is 6.250 percent of annual pay and the average employer's contribution rate is 6.250 percent of annual payroll for the 2% @ 62 plan. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the Measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014 total pension liability and the June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were derived from the June 30, 2012 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/ Period	For details, see June 30, 2012 Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2012 Funding Valuation Report
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS

Mortality Rate Table	Experience Study for the period from 1997-2007 The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997-2007. Pre-retirement and Post-retirement mortality rate includes 5 year of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 [1]	Real Return Years 11+[2]
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1] An expected inflation of 2.5% used for this period
[2] An expected inflation of 30% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term discount rate of 7.65 percent 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 CalPERS' website under the GASB 68 section.

Changes in Net Pension Liability

The following table shows the Plan's proportionate share of the risk pool collective net pension liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability/(Asset) (c)=(a)-(b)
Balance at 6/30/2014 (VD)	$3,416,010	$2,836,270	$579,740
Balance at 6/30/2015 (MD)	$3,460,337	$2,959,633	$500,704
Net Changes during 2014-15	$ 44,327	$ 133,363	$ 79,036

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, calculated using the discount rate of 7.65 percent, 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 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	$839,716	$500,704	$220,811

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Pension Expense and Deferred Outflows and Deferred Inflows

As of June 30, 2015 the District reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$4,557	$0
Changes of Assumptions		$(43,102)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	$110,478	$(132,005)
Adjustment due to Differences in		

Proportions		
Total	$115,035	$(175,107)

The amounts above are net of outflows and inflows recognized in the 2014-15 measurement period expense.

Amounts reported as deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	$(30,175)
2017	$(30,175)
2018	$(27,422)
2019	27,700
2020	$0
Remaining	$0

Note 7: Net Position

GASB Statement No. 63 require that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition on net investment in capital assets or restricted net position.

The District maintains the majority of its cash with the Sonoma County Treasury in a general operating account, debt service accounts, and construction accounts.

Cash restricted to long-term debt repayment is held in the debt service accounts, and cash restricted to water system improvements is held in the construction accounts. The restrictions arise from provisions of the General Obligation Bond Issues and California Safe Drinking Water Loan Contracts #58330 and #58340.

Note 8: Deferred Compensation Plans

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (ING and AIG Valic) for the exclusive benefit of the

plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

Note 9: Risk Management

The District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA) for insurance purposes. The SDRMA is a joint powers agency formed pursuant to Section 6500 et seq., California Government Code, is comprised of California special districts, and agencies. The relationship between the District and JPA is such that the JPA is not a component of the District for financial reporting purposes. The SDRMA's purpose is to jointly fund and develop programs to provide stable, efficient, and long term risk financing for special districts. These programs are provided through collective self-insurance; the purchase of insurance coverage's; or a combination thereof. SDRMA provides general and auto liability, workers' compensation, public officials' and employees' errors and omissions, employment practices liability, property loss, and boiler and machinery coverage.

Note 10: Contingencies

In October, 2014, the District entered into a contract with Coastland Civil Engineering, Inc. for $211,178 (with a potential of up to $10,000 in extra fees) for engineering of the 2016 Capital Improvement Project (CIP 2016). As of June 30, 2016, the District has paid Coastland a total of $194,742.72.

In May, 2015, the District entered into a contract with Piazza Construction for $915,433 (with a potential of $91,453 in additional charges) for construction of CIP 2016. As of June 30, 2016, $853,805.45 was paid to complete this contract (project was completed under budget).

In October, 2015, the District entered into a contract with Coastland Civil Engineering, Inc. for $285,884 (with a potential of up to $10,000 in extra fees) for engineering of the 2017 Capital Improvement Project (CIP 2017). In March, 2016, this contract was amended to add an additional $69,000 to the contract, for a total of $354,000. As of June 30, 2016, the District has paid Coastland a total of $123,394.

Note 11: Post-Retirement Health Insurance

Plan Description

The District provides certain health insurance benefits to retired employees in accordance with memoranda of understanding as follows:

For employees who retire from the District after at least five (5) years of service with CalPERS and who have reached the age of fifty (50) years old, and who continue health insurance through a District-sponsored health insurance plan, the District will contribute the minimum monthly amount (as required by CalPERS) of the health insurance premium ($125 and $122 for the calendar year 2016 and 2015 respectively).

Funding Policy

The District adopted a resolution to enter into an agreement with CalPERS to participate in the California Employer's Retiree Benefit Trust Program (CERBT). For fiscal year 2015-16, the District contributed $8,140, which covered current premiums, but did not include any additional prefunding of benefits. Currently, there are 3 retirees who are receiving benefits.

Annual OPEB and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45's Alternative Measurement Method allowed for employers with less than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual OPEB and Net OPEB Obligation (Continued)

Annual required contribution	$ 7,816
Interest on net OPEB obligation	14
Adjustment to ARC	(22)
Annual OPEB cost (expense)	7,808
Contributions made	(8,140)
Increase in net OPEB obligation	(332)
Net OPEB obligation - beginning of fiscal year	103
Net OPEB obligation - end of fiscal year	$ (229)

The District 's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013-14, 2014-15, and 2015-16 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	OPEB Obligation (Asset)
6/30/2014	$ 6,453	268%	$ 3,621
6/30/2015	6,935	151%	103
6/30/2016	7,807	104%	(229)

Funded Status and Funding Progress

As of June 30, 2016, the most recent Alternate Measurement Method valuation date, the plan was 6.5 percent funded. The actuarial accrued liability for benefits was $418,666, and the actuarial value of assets was $25,428, resulting in an unfunded actuarial accrued liability (UAAL) of $393,238. The covered payroll (annual payroll of active employees covered by the plan) was $635,038, and the ratio of the UAAL to the covered payroll was 61.9 percent.

The Alternate Measurement Method valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The Alternate Measurement Method valuation methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the actuarial assumptions included a 3.3 percent investment rate of return, a 75 percent continuity rate that retirees will continue to participate in CalPERS health, and an annual healthcare cost trend rate of 3.2 percent. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a flat percentage of covered payrolls over thirty years. The remaining amortization period at June 30, 2016 was twenty-eight (28) years.

SUPPLEMENTARY INFORMATION

Required Supplementary Information
June 30, 2016

Other Postemployment Benefits

Schedule of Funding Progress

Valuation Date	Accrued Liability (a)	Value of Assets (b)	(Excess Assets) (a)-(b)	Funded Status (b)/(a)	Covered Payroll (c)	% of Payroll [(a)-(b)]/(c)
6/30/2013	$ 335,607	$ -	$ 335,607	0.0%	$ 701,805	47.8%
6/30/2014	$ 335,607	$ -	$ 335,607	0.0%	$ 701,805	47.8%
6/30/2015	$ 335,607	$ -	$ 335,607	0.0%	$ 701,805	47.8%