# SWEETWATER SPRINGS WATER DISTRICT

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

**FROM:** Steve Mack, General Manager

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**Meeting Date: March 3, 2016**

**Subject: DISCUSSION/ACTION RE RESOLUTION 16-01, ACCEPTING THE FINAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

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**RECOMMENDED ACTION:**

Approve Resolution 16-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2015.

**FISCAL IMPACT:**

(Preparation of the FY 14-15 Audit cost $8,000.)

**DISCUSSION:**

Our FY 2014-15 Audit was conducted by Michael Celentano, CPA. The Audit format is different than last year - this is the first 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. New to this year's Audit is the first year of reporting future retirement obligations not yet funded. More information on this new liability and a financial summary of the year is included at the beginning of the Audit in a document prepared by staff.

Staff recommends the Board approve Resolution 16-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2015.

# Resolution No. 16-01

## A Resolution of the Board of Directors of the Sweetwater Springs Water District Accepting the Final Audit for the Fiscal Year Ending June 30, 2015

**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 Moss, Levy & Hartzheim for the year ending June 30, 2015, 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 March 3, 2016, by the following vote.

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

_____
Tim Lipinski
President of the Board of Directors

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

# SWEETWATER SPRINGS WATER DISTRICT

## BASIC FINANCIAL STATEMENTS

## JUNE 30, 2015

**SWEETWATER SPRINGS WATER DISTRICT**
**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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**MICHAEL A. CELENTANO**
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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, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

**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, 2015 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 3-8 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 21, 2015

# 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, 2015. 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 2014-15. 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 2014-15

**Net income (change in Net Position)** is less than last year. Net income for the year before depreciation expense was $1,106,644 compared to $1,005,958 in FY 2013-14. However, after Other (non-cash) items including the addition of a new liability to be recognized - Net Pension Liability - the District's net income overall was actually a loss at -$406,119, compared to $138,623 last year (p. 6.)

**Surplus revenue** transferred to CIRF is down. In FY 2014-15, the District budgeted $260,000 in surplus operating revenues for transfer to the Capital Improvement Revenue Fund (CIRF) for future capital spending, less than the $390,000 budgeted in FY 2013-14. (p. 10)

**District reserves** are down. District funds available for capital improvement projects were $1,774,258 at FYE 15, compared to $2,501,800 at FYE 2014. (p. 9.)

**Selected revenues and expenses:**

| | FY 2014-15 | FY 2013-14 |
|---|---|---|
| Water Sales: | $2,202,259 | $2,219,458 |
| Operating Expenses (before depreciation): | $1,614,952 | $1,570,099 |
| Capital Improvement Projects: | $1,036,829 | $1,070,424 |
| Debt Payments (principal + interest): | $970,693.16 | $1,059,252 |

**Other Notes for FY 2014-15:**

**(1) The District purchased an online mapping system.** The new mapping system is a web-based geographical information system (GIS) that allows staff access to view District maps online and update them as projects are completed. Initial cost to set up the mapping system was $14,811, with annual support and maintenance projected at $4,200. The online mapping system supplements paper maps prepared by project engineers.

**(2) The District began recognizing net pension liability on the Statement of Net Position in accordance with Governmental Accounting Standards Board (GASB) 68.** Net Pension Liability is a complex actuarial calculation of our pension liability now and in the future, minus a complex actuarial calculation of the total of our contributions and earnings (losses) since we joined PERS in 2001. Put another way, Net Pension Liability = Total Pension Liability - Plan Net Position. Accounting for this liability represents a significant difference from the way pension liability was presented in prior years, which was to record only current year's pension expense. Adding this liability brings attention to the gap between what we've saved and what we can expect to pay out in pension benefits. In FY 2014-15, our current year pension expense was $114,525.80. Net Pension Liability, reflected in two line items on the Statement of Net Position, totals $734,115. For this catchup year, this liability was largely offset directly to prior year's Net Position. In future years, changes to Net Pension Liability will be offset against current year Retirement expense.

The addition of Net Pension Liability completes a GASB plan of greater transparency that began for the District in FY 2009-10, when we began recognizing net post employment retirement benefit (PERB) obligations (i.e. retiree healthcare benefits) on the Statement of Net Position.

## 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 2014-15 compared to FY 2013-14 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 decreased by $406,118 to $11,212,065 at FYE 2015, down from $11,618,183 at FYE 2014, largely due to the addition of Net Pension Liability.

**Table 1**
**Condensed Statement of Net Position**

| | FYE 2015 | FYE 2014 | $ Change | % Change |
|---|---|---|---|---|
| Cash | 3,421,874 | 3,974,722 | (552,848) | -13.9% |
| Capital Assets | 20,695,114 | 20,313,215 | 381,899 | 1.9% |
| Other Assets | 384,944 | 416,029 | (31,085) | -7.5% |
| **Total Assets** | **24,501,932** | **24,703,966** | **(202,034)** | **-0.8%** |
| Bond & Loan principal debt outstanding | 12,263,064 | 12,819,071 | (556,007) | -4.3% |
| Other long-term liabilities | 802,846 | 62,421 | 740,425 | 1186.2% |
| Other short-term liabilities | 223,957 | 204,291 | 19,666 | 9.6% |
| **Total Liabilities** | **13,289,867** | **13,085,783** | **204,084** | **1.6%** |
| Net investment in capital assets | 8,432,050 | 7,348,268 | 1,083,782 | 14.7% |
| Restricted | 15,123 | 10,115 | 5,008 | 49.5% |
| Unrestricted | 2,764,892 | 4,259,800 | (1,494,908) | -35.1% |
| **Total Net Position** | **11,212,065** | **11,618,183** | **(406,118)** | **-3.5%** |

## 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 2014-15 versus FY 2013-14.

| | FYE 2015 | FYE 2014 | $ Change | % Change |
|---|---|---|---|---|
| Water Sales | 2,202,259 | 2,219,458 | (17,199) | -0.8% |
| Property Tax Assessment (flat charge) | 812,551 | 759,014 | 53,537 | 7.1% |
| Non-Operating Revenues | 141,679 | 122,724 | 18,955 | 15.4% |
| **Total Revenues** | **3,156,488** | **3,101,196** | **55,292** | **1.8%** |
| Operating Expenses: | | | | |
| Salaries & Benefits | 1,008,822 | 1,072,968 | (64,146) | -6.0% |
| Services & Supplies | 606,130 | 496,621 | 109,509 | 22.1% |
| Other | | | 0 | - |
| **Total Operating Expenses** | **1,614,952** | **1,569,589** | **45,363** | **2.9%** |
| Non-Operating Expenses: | | | | |
| Interest | 433,658 | 525,649 | (91,991) | -17.5% |
| Other | 1,234 | 0 | 1,234 | 0.0% |
| **Total Non-Operating Expenses** | **434,892** | **525,649** | **(90,757)** | **-17.3%** |
| **Total Expenses** | **2,049,844** | **2,095,238** | **(45,394)** | **-2.2%** |
| **Income before Other Items and Depreciation Expense** | **1,106,644** | **1,005,958** | **100,686** | **10.0%** |
| Other income | 0 | 0 | 0 | - |
| Other expense | (792,133) | (171,235) | (620,898) | 0.0% |
| Depreciation Expense | (720,630) | (696,100) | (24,530) | 3.5% |
| **Change in Net Position (Net Income)** | **(406,119)** | **138,623** | **(544,742)** | **-393.0%** |

**Income before Other Items and Depreciation Expense** was $100,686 more than last fiscal year.

Total **revenues** were $3,156,488, slightly higher ($55,292) than last year. Water Sales were down from last year in spite of a 3% rate increase as customer conservation efforts resulted in record low water usage. 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 $62,551. 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 $18,955 higher than last year due to an increase in construction and the sale of a small parcel of District land.

On the expense side, total **expenses** increased $45,394 or 2.2%, mostly due to high costs for repairs to the District's treatment system, which vary from year to year.

**Income after accounting for "Other Items" (Change in Net Position)** was -$406,119 compared to $133,623 in FY 2013-14 – a decrease of $544,742. Other items included Depreciation Expense, a non-cash expense, which continues to rise each year as the District continues with annual capital improvements that depreciate over a 40-year life. This year it also included non-cash expenses related to adding Net Pension Liability to the Statement of Net Position.

## III. CAPITAL SPENDING

In FY 2014-15, the District spent $1,043,948 on construction projects, broken down as follows:

| Project | Project Description | Amount spent FY 2014-15 | % complete at FYE 2015 |
|---|---|---|---|
| CIP 2015 | 5800 lf of main replacement on Old Monte Rio Road from the Handy Andy Booster west | $971,912 | 100% (Project total: $1,043,305.30) |
| 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 | 64,917 | 5.6% (Project total: $1,144,472) |
| Tank/Facilities Improvements | (Various site improvements) | $7,119 | N/A |
| | | $1,043,948 | |

In addition to these capital projects, the District spent a total of $58,580 on a new truck, a leak listener, and an online mapping system. Also, $37,463 was spent on various in-house large maintenance projects.

## IV. DISTRICT DEBT/SOURCES OF DEBT REPAYMENT

At the beginning of FY 2014-15, the District owed a total of $12,819,071 in bond debt, state loans, and a private placement loan. During the year the District made $556,007 in principal payments. No payments were made on the re-negotiated USDA GO Bonds, which rolled FY 2014-15 interest into a new principal balance carrying a 2.375% interest rate and 40-year term. Payments will commence in FY 2015-16.

The table below summarizes activity on the bonds and loans in FY 2014-15:

| DEBT TYPE | ORIGINAL PRINCIPAL | PRINCIPAL OWED JULY 1, 2014 | PRINCIPAL PAID FY 2014-15 | PRINCIPAL OWED FYE 2015 |
|---|---|---|---|---|
| USDA G.O. Bonds | $1,647,875 (2014) | $1,647,875 | $0 | $1,647,875 |
| Capital One Bonds | 7,993,000 (2013)* | $7,553,000 | $300,000 | $7,253,000 |
| State Loans | $3,013,500 (1996) | $1,185,757 | $136,128 | $1,049,628 |
| Private Placement Loan | $3,000,000 (2008) | $2,432,439 | $119,879 | $2,312,561 |
| | | $12,819,071 | $556,007 | $12,263,064 |

With interest, actual payments on District bond and loan debt were $989,665. 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 2014-15 as shown below:

Flat Charges: $812,551

[1] CDR stands for "Capital Debt Reduction".

- **Reserves.** Reserves available for capital spending ("reserves above policy") were at $1,774,258 at FYE 2015.

For this period (2014-19), the District's longterm budget calls for depleting District reserves above policy. Once reserves above policy are depleted - projected to be around 2017-18, 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 2014-15 was the fourth 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 |

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.

| | |
|---|---|
| CDR Revenue: | $253,947 |
| Capital interest: | $11,995 |
| **Total:** | **$1,025,773** |

The surplus (shortfall) from these sources of revenue -- $26,108 surplus in FY 2014-15 -- 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 $2,988,435. District policy reserves were $1,214,177, leaving $1,744,258[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 |

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 "catch-up" projects of the 2014-19 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 2014-19 Capital Improvement Program identifies over $6.2 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 $900,000. The District's capital construction is funded from four sources:

- **Surplus revenue**. The District has a plan to increase surplus revenue to $500,000 annually. In FY 2014-15 it was budgeted at $260,000.
- **Grants**. The District is not anticipating any grant revenue as of FYE.
- **Loan proceeds.** The District's indebtedness was over $12 million at the end of FY 2014-15. There is no plan to take on additional debt as of FYE.

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[2] Source: 4th Quarter Actual vs. Budgeted report.
[3] Source: 2014-19 Capital Improvement Program

# SWEETWATER SPRINGS WATER DISTRICT
## STATEMENT OF NET POSITION
### June 30, 2015 and 2014

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and investments | $ 1,682,310 | $ 2,240,852 |
| Accounts receivable | 279,177 | 300,818 |
| Flat charges receivables | 43,372 | 58,816 |
| Inventory | 56,395 | 56,395 |
| Prepaid expenses | 6,000 | |
| TOTAL CURRENT ASSETS | 2,067,254 | 2,656,881 |
| NONCURRENT ASSETS | | |
| Land | 143,053 | 143,053 |
| Construction in progress | 64,917 | 71,394 |
| Buildings and improvements | 28,601,260 | 27,550,834 |
| Machinery and equipment | 602,907 | 544,327 |
| Less-accumulated depreciation | (8,717,023) | (7,996,393) |
| TOTAL CAPITAL ASSETS, NET | 20,695,114 | 20,313,215 |
| OTHER NONCURRENT ASSETS | | |
| Restricted cash and investments | 1,739,564 | 1,733,870 |
| TOTAL OTHER NONCURRENT ASSETS | 1,739,564 | 1,733,870 |
| TOTAL ASSETS | 24,501,932 | 24,703,966 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 6,685 | 15,336 |
| Accrued wages | 23,660 | 19,254 |
| Accrued interest | 165,358 | 146,386 |
| Customer deposits | 13,131 | 13,200 |
| Road maintenance obligations | 15,123 | 10,115 |
| Current portion of long term debt | 602,908 | 556,007 |
| TOTAL CURRENT LIABILITIES | 826,865 | 760,298 |
| DEFERRED INFLOWS | | |
| Pension expense | 154,375 | - |
| TOTAL DEFERRED INFLOWS | 154,375 | - |
| LONG TERM LIABILITIES | | |
| Compensated absences | 68,628 | 58,800 |
| Net pension liability | 579,740 | |
| General obligation bonds payable | 8,563,728 | 8,900,875 |
| California safe drinking water bonds payable | 909,508 | 1,049,628 |
| Citizens business bank (COP) payable | 2,186,920 | 2,312,561 |
| Other postemployment benefits payable | 103 | 3,621 |
| TOTAL LONG TERM LIABILITIES | 12,308,627 | 12,325,485 |
| TOTAL LIABILITIES | 13,289,867 | 13,085,783 |
| **NET POSITION** | | |
| Net Investment in capital assets | 8,432,050 | 9,217,899 |
| Unrestricted | 2,780,015 | 2,400,284 |
| TOTAL NET POSITION | $ 11,212,065 | $ 11,618,183 |

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, 2015 and 2014

| | Totals June 30, 2015 | Totals June 30, 2014 |
|---|---|---|
| **Operating Revenues** | | |
| Charges for services | $ 2,202,259 | $ 2,219,458 |
| Total Operating Revenues | 2,202,259 | 2,219,458 |
| **Operating Expenses** | | |
| Salaries and employee benefits | 1,008,822 | 1,072,968 |
| Service and supplies | 607,364 | 496,621 |
| Depreciation | 720,630 | 696,100 |
| Total Operating Expenses | 2,336,816 | 2,265,689 |
| Operating Income (Loss) | (134,557) | (46,231) |
| **Non-Operating Revenues (Expenses)** | | |
| Interest income | 18,757 | 22,984 |
| Rents | 78,456 | 90,204 |
| Flat charges | 812,550 | 759,014 |
| Other non-operating revenue | 44,466 | 9,536 |
| Loss on disposal of capital assets | | |
| Interest expense | (433,658) | (525,649) |
| Debt issuance costs | - | (171,235) |
| Total Non-Operating Revenues (Expenses) | 520,571 | 184,854 |
| Net Income (Loss) Before Capital Contributions | 386,014 | 138,623 |
| **Capital Contributions** | | |
| Capital grants | | |
| Total Capital Contributions | | |
| Change in Net Position | 386,014 | 138,623 |
| Total Net Position, Beginning of Fiscal Year | 11,618,183 | 11,479,560 |
| Prior Period Adjustment for GASB 68 Net Pension Liability | (792,133) | |
| Total Net Position, Beginning of Fiscal Year, Restated | 10,826,050 | 11,479,560 |
| Total Net Position, End of Fiscal Year | $ 11,212,064 | $ 11,618,183 |

See accompanying notes to basic financial statements

# SWEETWATER SPRINGS WATER DISTRICT
## STATEMENT OF CASH FLOWS
### For the Fiscal Year Ended June 30, 2015 and 2014

| | Totals June 30, 2015 | Totals June 30, 2014 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Cash received from customers | $ 2,223,831 | $ 2,221,192 |
| Payments to suppliers for goods and services | (552,989) | (580,323) |
| Payments to employees and related items | (1,120,141) | (1,077,366) |
| Net cash flows provided by operating activities | 550,701 | 563,503 |
| Cash Flows From Capital and Related Financing Activities | | |
| Acquisition of capital assets | (1,102,529) | (1,071,691) |
| Proceeds from issuance of long term debt | - | 7,993,000 |
| Payment on long term debt | (556,007) | (8,295,006) |
| Bond issue costs paid | | (171,235) |
| Interest payments | (414,686) | (586,010) |
| Net cash flows (used) by capital and related financing activities | (2,073,222) | (2,130,942) |
| Cash Flows From Non-Capital and Related Financing Activities | | |
| Flat charges | 827,994 | 756,608 |
| Miscellaneous non-operating revenues | 44,466 | 9,536 |
| Net cash provided by non-capital and related financing activities | 872,460 | 766,144 |
| Cash Flows From Investing Activities | | |
| Rents | 78,456 | 90,204 |
| Interest income | 18,757 | 22,984 |
| Net cash flows provided by investing activities | 97,213 | 113,188 |
| Net Increase (Decrease) in Cash and Investments | (552,848) | (688,107) |
| Cash and Investments, Beginning of Fiscal Year | 3,974,722 | 4,662,829 |
| Cash and Investments, End of Fiscal Year | $ 3,421,874 | $ 3,974,722 |
| Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Position: | | |
| Cash and investments | $ 1,682,310 | $ 2,240,852 |
| Restricted cash and investments | 1,739,564 | 1,733,870 |
| | $ 3,421,874 | $ 3,974,722 |
| Supplemental Disclosures: | | |
| Interest expense during the fiscal year | $ 433,658 | $ (525,649) |
| 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, 2015 and 2014**

**(Continued)**

| | Totals June 30, 2015 | Totals June 30, 2014 |
|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations: | | |
| Operating income (loss) | $ (134,557) | $ (46,231) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Depreciation | 720,630 | 696,100 |
| Salaries and employee benefits | (58,017) | |
| (Increase) Decrease in Operating Assets: | | |
| Accounts receivable | 21,641 | 4,071 |
| Inventory | | (1,397) |
| Prepaid expenses | (6,000) | |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts payable | (8,651) | (77,316) |
| Accrued wages | 4,406 | (331) |
| Compensated absences | 9,828 | 6,788 |
| Customer deposits payable | (69) | (2,337) |
| Road maintenance obligations | 5,008 | (4,989) |
| Other postemployment benefits payable | (3,518) | (10,855) |
| Total Adjustments | 685,258 | 609,734 |
| Net Cash Provided by Operating Activities | $ 550,701 | $ 563,503 |

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 $68,628 and $58,800 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, 2015:

| | Unrestricted | Restricted | Totals |
|---|---|---|---|
| Cash on hand | $ 500 | $ - | $ 500 |
| Cash in bank | 177,130 | 82,422 | 259,552 |
| Cash and investments | 1,504,680 | 1,657,142 | 3,161,822 |
| Total Cash and Investments | $ 1,682,310 | $ 1,739,564 | $ 3,421,874 |

| | |
|---|---|
| Statement of Net Position: | |
| Cash and investments | $ 1,682,310 |
| Restricted cash and investments | 1,739,564 |
| Total | $ 3,421,874 |

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:

| | | Remaining maturity (in Months) | | | | | |
|---|---|---|---|---|---|---|---|
| Investment Type | Totals | 12 Months or Less | 13 to 24 Months | 25-36 Months | 37-48 Months | 49-60 Months | More Than 60 Months |
| County Pooled Investment Fund | $ 3,161,822 | $ 3,161,822 | $ - | $ - | $ - | $ - | $ - |
| | $ 3,161,822 | $ 3,161,822 | $ - | $ - | $ - | $ - | $ - |

**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.

| | | | | Rating as of Fiscal Year End | | | |
|---|---|---|---|---|---|---|---|
| Investment Type | Amount | Minimum Legal Rating | Exempt From Disclosure | AAA | AA | A | Not Rated |
| County Pooled Investment Fund | $ 3,161,822 | N/A | $ - | $ - | $ - | $ - | $ 3,161,822 |
| Total | $ 3,161,822 | | $ - | $ - | $ - | $ - | $ 3,161,822 |

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, 2015, 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, 2015, was as follows:

| | Balance at July 1, 2014 | Additions | Deletions | Transfers | Balance at June 30, 2015 |
|---|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | | |
| Land | $ 143,053 | $ - | $ - | $ - | $ 143,053 |
| Construction in progress | 71,394 | 64,917 | | (71,394) | 64,917 |
| Total capital assets, not being depreciated | 214,447 | 64,917 | | (71,394) | 207,970 |
| **Capital Assets, being depreciated:** | | | | | |
| Building and improvements | 27,550,834 | 979,032 | | 71,394 | 28,601,260 |
| Machinery and equipment | 544,327 | 58,580 | | | 602,907 |
| Total capital assets, being depreciated | 28,095,161 | 1,037,612 | | 71,394 | 29,204,167 |
| **Accumulated depreciation:** | | | | | |
| Building and improvements | (7,479,229) | (713,018) | | | (8,192,247) |
| Machinery and equipment | (517,164) | (7,612) | | | (524,776) |
| Total accumulated depreciation | (7,996,393) | (720,630) | | | (8,717,023) |
| Total depreciable assets, net | 20,098,768 | 316,982 | | 71,394 | 20,487,144 |
| **Total capital assets, net** | $ 20,313,215 | $ 381,899 | $ - | $ - | $ 20,695,114 |

Depreciation expense of $720,630 was incurred and recorded as an operating expense for June 30, 2015.

## 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, 2015:

| | | | | | |
|---|---|---|---|---|---|
| 2003 General Obligation Bonds | 1,647,875 | | | 1,647,875 | 25,147 |
| 2013 General Obligation Refunding Bonds | 7,553,000 | | (300,000) | 7,253,000 | 312,000 |
| California Safe Drinking Bonds | 1,185,757 | | (136,129) | 1,049,628 | 140,120 |
| Citizens Business Bank Certificates of Participation | 2,432,439 | | (119,878) | 2,312,561 | 125,641 |
| Other Postemployment Benefits | 3,621 | 6,935 | (10,453) | 103 | |
| Total | $ 12,822,692 | $ 6,935 | $ (566,460) | $ 12,263,167 | $ 602,908 |

**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.

Future debt service requirements on the 2003 General Obligation bonds are:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 25,147 | $ 39,137 | $ 64,284 |
| 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 |
| 2021-2025 | 148,268 | 173,162 | 321,430 |
| 2026-2030 | 166,731 | 154,708 | 321,439 |
| 2031-2035 | 187,492 | 133,957 | 321,449 |
| 2036-2040 | 210,841 | 110,621 | 321,462 |
| 2041-2045 | 237,097 | 84,379 | 321,476 |
| 2046-2050 | 266,621 | 54,870 | 321,491 |
| 2051-2055 | 298,976 | 21,685 | 320,661 |
| Total | $ 1,647,875 | $ 922,954 | $ 2,570,829 |

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, 2015 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 312,000 | $ 255,492 | $ 567,492 |
| 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 |
| 2021-2025 | 1,990,000 | 831,744 | 2,821,744 |
| 2026-2030 | 2,363,000 | 440,334 | 2,803,334 |
| 2031-2035 | 1,233,000 | 58,302 | 1,291,302 |
| Total | $ 7,253,000 | $ 2,490,066 | $ 9,743,066 |

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, 2015 are $920,995 and $128,634 respectively.

The remaining debt service payments are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 120,229 | $ 26,389 | $ 146,618 |
| 2017 | 123,909 | 22,709 | 146,618 |
| 2018 | 127,549 | 19,069 | 146,618 |
| 2019 | 131,346 | 15,272 | 146,618 |
| 2020 | 135,235 | 11,383 | 146,618 |
| 2021-2025 | 282,727 | 10,510 | 293,237 |
| Total | $ 920,995 | $ 105,332 | $ 1,026,327 |

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 19,891 | $ 3,663 | $ 23,554 |
| 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 |
| 2021-2025 | 23,043 | 511 | 23,554 |
| Total | $ 128,634 | $ 12,690 | $ 141,324 |

**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, 2015 is $2,312,560.

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 125,641 | $ 108,372 | $ 234,013 |
| 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 |
| 2021-2025 | 874,526 | 295,540 | 1,170,066 |
| 2026-2030 | 746,468 | 72,578 | 819,046 |
| Total | $ 2,312,560 | $ 846,617 | $ 3,159,177 |

**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 $337.

The total rental payments for all leasing arrangements charged to expenses were $29,842 and $28,653 for June 30, 2015 and 2014 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, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 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, 2014 (the measurement date), the active employee contribution rate is 6.891 percent of annual pay, and the average employer's contribution rate is 10.282 percent of annual payroll. 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, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB Statement No.68 |
| 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 |
| 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 mortality table used was developed based on CalPERS' specific date. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experiences study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

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 7.50 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term discount rate of 7.50 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 6/30/2013 (VD) | $3,224,142 | $2,432,009 | $792,133 |
| Balance at 6/30/2014 (MD) | $3,416,010 | $2,836,270 | $579,740 |
| Net Changes during 2013-14 | $191,868 | $404,261 | $(212,393) |

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 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

| | Discount Rate - 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| Plan's Net Pension Liability/(Asset) | $1,032,917 | $579,740 | $203,646 |

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, 2014 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 | $0 | $0 |
| Changes of Assumptions | 0 | 0 |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | 0 | (194,819) |
| Adjustment due to Differences in Proportions | 0 | (12,850) |
| **Total** | $0 | $(207,669) |

The amounts above are net of outflows and inflows recognized in the 2013-14 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 |
|---|---|
| 2015 | $(53,294) |
| 2016 | $(53,294) |
| 2017 | $(52,377) |
| 2018 | $(48,704) |
| 2019 | $0 |
| Thereafter | $0 |

**Note 7: Net Position**

GASB Statement No. 63 requires 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 $221,178 (with a potential of up to $10,000 in extra fees) for engineering of the 2016 Capital Improvement Project (CIP). As of June 30, 2015, the District has paid Coastland a total of $64,917.

In May, 2015 the District entered into a contract with Piazza Construction for $993,294 (with a potential of $91,453 in additional charges) for construction of CIP 2016. As of June 30, 2015, nothing has been paid on this contract.

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).

## 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 ($122 and $119 for the calendar year 2015 and 2014 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 2014-15, the District contributed $10,453, which covered current premiums, but did not include any additional prefunding of benefits. Currently, there are 2 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 | $ 7,006 |
| Interest on net OPEB obligation | 119 |
| Adjustment to ARC | (190) |
| Annual OPEB cost (expense) | 6,935 |
| Contributions made | (10,453) |
| Increase in net OPEB obligation | (3,518) |
| Net OPEB obligation - beginning of fiscal year | 3,621 |
| Net OPEB obligation - end of fiscal year | $ 103 |

The District 's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012-13, 2013-14, and 2014-15 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contribution | OPEB Obligation (Asset) |
|---|---|---|---|
| 6/30/2013 | $ 6,116 | 45% | $ 14,476 |
| 6/30/2014 | 6,453 | 268% | 3,621 |
| 6/30/2015 | 6,935 | 151% | 103 |

Funded Status and Funding Progress

As of June 30, 2015, the most recent Alternate Measurement Method valuation date, the plan was 3.9 percent funded. The actuarial accrued liability for benefits was $422,461, and the actuarial value of assets was $21,482, resulting in an unfunded actuarial accrued liability (UAAL) of $400,979. The covered payroll (annual payroll of active employees covered by the plan) was $641,051, and the ratio of the UAAL to the covered payroll was 62.5 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, 2014 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, 2014 was thirty years.

## Note 12: Subsequent Event

Management of the District has evaluated subsequent events through December 21, 2015, the date these financial statements were available to be issued, and has determined there were no material events requiring disclosure.

# SWEETWATER SPRINGS WATER DISTRICT

## Required Supplementary Information
## June 30, 2015

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) |
|---|---|---|---|---|---|---|
| 6/30/2012 | $ 338,796 | $ - | $ 338,796 | 0.0% | $ 679,328 | 49.9% |
| 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% |