Agenda

Sacramento Suburban Water District

Finance and Audit Committee

3701 Marconi Avenue, Conference Room, Suite 300
Sacramento, CA 95821

Thursday, May 26, 2016
10:00 a.m.

Where appropriate or deemed necessary, the Committee may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to members of the Finance and Audit Committee less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Committee concerning an agenda item either before or during the Committee's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The Committee Chair will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Roll Call

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. **2015 Comprehensive Annual Financial Report and Annual Audit**
Review the 2015 Comprehensive Annual Financial Report and annual audit results with the District's independent auditors, Richardson & Company, LLP. Consider recommending approval to the Board of Directors.

2. **Public Finance and the District Budgeting Process**
Review basis for the District's budgeting process and design. Provide direction to staff.

3. **2017/18 Budget Preparation Timeline**
Review timeline for preparation of 2017/18 budget. Provide direction to staff.

4. **Set Date for Next Committee Meeting**
Set date and time of next meeting to review first draft of the amended 2016 budget.

Adjournment

* *

Upcoming Meetings:

Monday, June 20, 2016, at 6:30 p.m., Regular Board Meeting
Thursday, June 23, 2016 at 4:00 p.m., Facilities and Operations Committee Meeting

* *

I certify that the foregoing agenda for the May 26, 2016, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by May 20, 2016, in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100 and 300, Sacramento, California, and was made available to the public during normal business hours.

Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District

SACRAMENTO SUBURBAN WATER DISTRICT

Agenda Item: 1

Date: May 18, 2016

Subject: 2015 Comprehensive Annual Financial Report and Annual Audit

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:
Recommend the 2015 Comprehensive Annual Financial Report (CAFR) and related Auditor Letters to the full Board for acceptance at the June regularly scheduled meeting of the Board of Directors.

Discussion:
Staff has prepared the District's CAFR for the year-ended December 31, 2015. The Auditors have performed their audit and rendered their opinion on the CAFR, which is found on pages 1 and 2 in the Financial Section of the CAFR (Exhibit 4). In addition to the Auditor's Opinion, included in the CAFR is the Auditor's Report on Internal Controls as required under Government Auditing Standards (pages 72 and 73). Also, the auditors have have provided two letters to the Board (Exhibits 1 and 2) wherein they discuss the results of their audit.

1. Letter to the Board (Exhibit 1) – this letter is a required communication as designated under generally accepted auditing standards. This letter reports to the Board significant audit findings, estimates used by the District in the Annual Report, and difficulties encountered during the audit and disagreements, if any, with management amongst other matters. The Auditors state there were no significant findings or difficulties encountered during the audit.

   The auditors also report in this letter the additional procedures requested of them to be performed beyond the scope of work needed to audit the CAFR. They note there were "no significant deficiencies or material weaknesses noted as a result of the additional testing."

2. Letter to the Board and Management (Exhibit 2) – This letter is written to provide the District with information resulting from the audit on District internal controls. Internal controls are the financially-related policies and procedures of the District. In this letter the auditors mention six items the District will want to note or make changes to in 2016 that will further strengthen District procedures.

3. Staff Response to Letter to the Board and Management (Exhibit 3)

4. The CAFR (Exhibit 4) is presented in three sections:

   a) Introductory – Provides readers with the background and organization of the District.

   b) Financial – Begins with the Auditors Opinion, followed by Management's Discussion and Analysis of the financial results for 2015 and 2014, followed by the Financial Statements and Footnotes.

   c) Statistical Information – Presents other financial information about the District and the community in which it operates and shows historical data for comparative purposes.

Fiscal Impact:
$38,620 – per Audit Engagement Letter with Richardson & Company, LLP - $32,500 for the audit and $6,120 for the Board requested additional procedures.

Strategic Plan Alignment:
Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.

EXHIBIT 1

DISCUSSION DRAFT

RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

To the Board of Directors
Sacramento Suburban Water District
Sacramento, California

We have audited the financial statements of the Sacramento Suburban Water District for the year ended December 31, 2015, and have issued our report thereon dated May 18, 2016. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in the District recording a restatement of beginning net position to record a pension liability and deferred outflows of resources related to the District's pension plans with CalPERS as of January 1, 2014 as well as a pension liability, deferred outflows of resources and deferred inflows of resources as of December 31, 2014 and 2015, as discussed in Note 2 of the financial statements. Additional required disclosures under GASB Statement No. 68 were also added to Note 13 to the financial statements due to the adoption of this Statement. The application of existing policies was not changed during the year. We noted no transactions entered into by the District 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 estimates affecting the financial statements were: depreciable lives and method used to depreciate capital assets, the accrual for postemployment benefits, the estimate of uncollectible accounts receivables, the estimated interest payments on variable interest rate bonds, and the fair value of interest rate swaps. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The accrual for postemployment benefits was determined by an actuarial valuation, which is required to be performed every three years. The fair value of the interest rate swaps is based on a consultant's valuation based on market interest rates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the pension disclosure in Note 12, the postemployment benefit disclosure in Note 14 and the interest rate swaps in Note 8 to the financial statement. The disclosure of the pension liability in Note 12 to the financial statements discusses the pension liability that is now reflected in the Statement of Net Position and related deferred balances as well as the assumption that were used to determine the amounts, as well as other required disclosures. Two new required supplementary information schedules were also added to provide additional information on the pension obligation.

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

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material misstatements identified during the audit. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 18, 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 District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Funding Progress – Other Postemployment Benefits (OPEB), and Schedules of Proportionate Share of the Net Pension Obligation and Contributions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We are not engaged to report on introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Additional Procedures

The District requested us to increase the sample size of transactions reviewed as part of our internal control testing. Under generally accepted auditing standards, the auditor selects sample sizes based on their judgment to obtain reasonable assure the financial statements are free of material misstatement. The requested procedures by the District resulted in the selection of additional transactions to be tested over the amounts required, in our judgment, for the audit. Our sample sizes, including the additional testing, included:

Cash Disbursements

We selected 25 transactions randomly from all disbursements made during the year. We also selected 15 transactions haphazardly from higher dollar disbursements. In addition, we scanned the list of petty cash disbursements made during the year and haphazardly selected 10 transactions for testing.

Wire and Bank Transfers

We haphazardly selected 10 wire and bank transfers during the year.

Credit Card Transactions

We reviewed all transactions charged to the District's credit cards during one month. We also haphazardly selected additional charges made during the year. A total of 61 credit card transactions were reviewed.

Board and Employee Reimbursements

We scanned the listings of all Board and employee reimbursements made during the year. We haphazardly selected 3 reimbursements made to Board members and 10 reimbursements made to employees from the listings.

Payroll Disbursements

We randomly selected 10 employees for payroll disbursement testing. We also selected 6 employees for testing that are part of senior management or involved in the finance and accounting function.

No significant deficiencies or material weaknesses were noted as a result of this additional testing.

Restriction on Use

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

May 18, 2016

EXHIBIT 2

RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

To the Board of Directors and Management
Sacramento Suburban Water District
Sacramento, California

In planning and performing our audit of the financial statements of the Sacramento Suburban Water District (the District) as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

Customer billing/receipts internal controls

Due to recent review of internal control process related to customer billings and cash receipts, we recommend that the District re-evaluate its process related to the customer billing/receipts functions, including the following areas:

1. Currently the Administrative Service Manager has the ability to process customer payments and post adjustments to customer accounts. If these duties cannot be separated, then we recommend that either the Assistant General Manager or Finance Director review and approve credit adjustments and refunds and that a list of billing adjustments be produced and reviewed by the Assistant Controller to ensure that proper approval have been obtained. The list of billing adjustments needs to include sufficient descriptions and related back-up documentation to evaluate the propriety of the adjustments.

2. A process needs to be set up for review of master file changes made in the billing system, including any changes to customer accounts and billing rate changes. Such master file changes represent any global changes to the billing system that affect all customers, including changes to

billing rates, changes to methods of billing and changes to billing cycles. Due to segregation of duties issues, the customer service manager and customer service representatives should not have access to master file changes that affect the amount of revenue recorded in the GL. Such changes should be made by someone in the Finance Department, such as the Assistant Controller, but should be approved prior to the change being made and the changes should be reviewed after they are made. Master file changes affecting only customer data could be done by someone having access to the billing and receipts functions, but such changes should be reviewed by the Finance Director at least after the fact. An edit report should be generated from the billing system showing changes that were made that is reviewed by someone not involved in the billing or receipts function, such as the Assistant Controller or Finance Director, to ensure changes were not made that were not reviewed.

3. The customer service representatives prepare the bills and the customer service manager reviews them. To detect possible unbilled accounts prior to the bills being sent to customers, we recommend that a preview of the billing register be reviewed by the Administrative Service Manager and reviewed by the Assistant General Manager or Finance staff where reasonableness tests can be performed on the billings to determine they are complete. This verification process should include comparing the number of customer connections in the billing cycle to the number of connections on the billing register. The District should ensure that the system has built in checks for consistency of billings and error messages are produced for inconsistencies detected by the system. A list of these error messages should be generated and reviewed by Finance staff.

4. The Administrative Service Manager has full access to make changes to the billing system. The District needs to ensure that at least one other staff member has access to make changes to the billing system as a back-up. We recommend that back-up staff be designated that are not involved in the customer receipts processing. The District needs to ensure that billing adjustments made by one District staff should be reviewed by separate staff.

5. An update to the Regulations and new procedure for billing write-offs and billing adjustments should be developed. This Regulation update and procedure should require that credit adjustments and refunds over a certain dollar amount be reviewed by the Finance Director or Assistant General Manager before the transaction is processed. Finance staff reviewing the list of billing adjustments should verify that approval was obtained for the adjustments/refunds that are over the specified threshold.

6. The Finance Department should be reviewing the delinquency report to ensure timely follow-up is being made on delinquent accounts.

7. Access rights to various functions in the billing system should be reviewed. For instance, access to the administrative functions, such as access controls custom field templates, reporting, workflow and creating and deleting history logs should be restricted to just the IT person, rather than allowing the customer service manager to have this access. The IT person and consultants should not have access to make changes to customer accounts. In addition, we noted some log-ins that appear to be for employees of Truepoint or other consultants but are in addition to the company log-ins. Users having access to all functions that are other than District and Truepoint log-ins should be removed from the system. Currently the customer service representatives and managers, who also have access to generate bills and process payments have the ability to post credit memos. This access should be limited to the accountant that posts the customer payments

to the system. The customer service representatives and manager should not have access to create or edit meter readings.

8. Consideration should be given as to whether the billing/receipts function of the customer service department should be reporting to positions with sufficient technical understanding of the billing/receipts process.

Gift Cards Provided to Employees

We noted that the District provided $5.00 gift cards to employees, but did not include the value of the cards in the employee W-2s. According to IRS Publication 15-B, gift cards, regardless of the value, are not excludable as a de minimis benefit. Going forward, we recommend the District include these amounts in the W-2s provided to employees.

Expense Reimbursements

We noted a few instances in our review of expense reimbursements where no receipt was provided and a lost receipt form was not completed. We also noted that a reimbursement was issued for an expense without information regarding the business purpose of the expense and that a receipt provided by an employee to support an expense reimbursement was not a detailed receipt. The District's policy states a detailed receipt must be provided. We recommend the District enhance its procedures to ensure that complete records are submitted by the employee requesting the reimbursement and that supporting documentation includes a business purpose and a detail of the expense.

Additionally, we noted an employee requested reimbursement of a meal expense as part of a per diem. However, the meal expense was included in the registration fees for the event the employee attended. As a result, the meal expense was paid twice by the District. We recommend the District verify per diem expenses have not already been paid prior to providing reimbursement.

Review of Pension Information

We recommend that the District ensure that the proper reviews are taking place of the census data maintained by CalPERS to ensure it is complete and accurate, as this information is used as a basis for calculating the District's share of the net pension liability. Consideration should be given to reviewing census information of all current employees and set up a process for reviewing the census information going forward.

Capital Assets

The District is currently recording assets based on their identifiable pieces so they are easier to remove when disposed, but this practice was not done in earlier years. As a result, the District's capital asset list may contain items that are no longer in service, but most of these items are likely fully depreciated. The District is in the process of reviewing the asset list for possible items that can be removed that may no longer be in service.

* * * * *

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the examination. This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than the specified parties.

__________, 2016

EXHIBIT 3

SACRAMENTO SUBURBAN WATER DISTRICT

To: Board of Directors

From: Daniel A. Bills, Finance Director

Date: May 18, 2016

RE: Response to Management Letter from Richardson & Company, LLP

The Auditors (Richardson & Company, LLP) have provided the Board with recommendations to improve District procedures in their Management Letter. Staff concurs with the recommendations and intends on implementing all of them in 2016 by amending or adding to District procedures as follows:

1. **Customer Billing/Receipts Internal Controls**
   Auditor Comment:
   Due to recent review of internal control process related to customer billings and cash receipts, we recommend that the District re-evaluate its process related to the customer billing/receipts functions, including the following areas:

1. *Currently the administrative services manager has the ability to process customer payments and post adjustments to customer accounts. If these duties cannot be separated, then we recommend either the Assistant General Manager or Finance Director review and approve credit adjustments and refunds and that a list of billing adjustments be produced and reviewed by the Assistant Controller to ensure that proper approval have been obtained. The list of billing adjustments needs to include sufficient descriptions and related back-up documentation to evaluate the propriety of the adjustments.*
2. *A process needs to be set up for review of master file changes made in the billing system, including any changes to customer accounts and billing rate changes. Such master file changes represent any global changes to the blling system that affect all customers, including changes to billing rates, changes to methods of billing and changes to billing cycles. Due to segregation of duties issues, the administrative services manager and customer service representatives should not have access to master file changes that affect the amount of revenue recorded in the GL. Such changes should be made by someone in the Finance Department, such as the Assistant Controller, but should be approved prior to the change being made and the changes should be reviewed after they are made. Master file changes affecting only customer data could be done by someone having access to the billing and receipts functions, but such changes should be reviewed by the Finance Director at least after the fact. An edit report should be generated from the billing system showing changes that were made that is reviewed by someone not involved in the billing or receipts function, such as the Assistant Controller or Finance Director, to ensure changes were not made that were not reviewed.*

3. *The customer service representatives prepare the bills and the administrative services manager reviews them. To detect possible unbilled accounts prior to the bills being sent to customers, we recommend that a preview of the billing register be reviewed by the Assistant General Manager or Finance staff where reasonableness tests can be performed on the billings to determine they are complete. This verification process should include comparing the number of customer connections in the billing cycle to the number of connections on the billing register. The District should ensure that the system has built in checks for consistency of billings and error messages are produced for inconsistencies detected by the system. A list of these error messages should be generated and reviewed by Finance staff.*
4. *The administrative services manager has full access to the billing system. The District needs to ensure that at least one other staff member has access to make changes to the billing system as back-up. We recommend that back-up person be designated that are not involved in the customer receipts processing. The District needs to ensure that billing adjustments should verify that approval was obtained for the adjustments/refunds that are over the specified threshold.*
5. *A policy for billing write-offs and billing adjustments should be developed. This policy should require that credit adjustments and refunds over a certain dollar amount be reviewed by the Assistant General Manager or Finance Director before the transaction is processed. The Finance person reviewing the list of billing adjustments should verify that approval was obtained for the adjustments/refunds that are over the specified threshold.*
6. *The Finance Department should be reviewing the delinquency report to ensure timely follow-up is being made on delinquent accounts.*
7. *Access rights to various functions in the billing system should be reviewed. For instance, access to the administrative functions, such as access controls custom field templates, reporting, workflow and creating and deleting history logs should be restricted to just the IT person, rather than allowing the customer service manager to have this access. The IT person and consultants should not have access to make changes to customer accounts. In addition, we noted some log-ins that appear to be for employees of Truepoint or other consultants but are in addition to the company log-ins. Users having access to all functions that are other than District and Truepoint log-ins should be removed from the system. Currently the customer service representatives and managers, who also have access to generate bills and process payments have the ability to post credit memos. This access should be limited to the accountant that posts the customer payments to the system. The customer service representatives and manager should not have access to create or edit meter readings.*
8. *Consideration should be given as to whether the billings/receipts function of the customer service department should be reporting to positions with sufficient technical understanding of the billing/receipts process.*

Staff Response:
The District changed its billing/receipts software system in 2014. As part of this change, staff desired to develop improved processes to ensure accuracy and completeness in its

billing/receipts and customer information processes. To that end, staff developed a new operating manual and reached out to its auditors to request better methods to ensure billing accuracy and proper handling of customer payments. Staff, therefore, appreciates these recommendations.

To implement these recommendations, staff will be asking the Board to amend its Regulations Governing Water Service to provide the General Manager authority to amend and enhance procedures regarding billing, delinquency, write-off and collection processes. In addition, as there are a total of five customer service staff, the General Manager will revisit job duties and approval processes to ensure that all original work performed by each customer service staff member is reviewed and signed-off by at least one technically proficient manager above the staff member. When it comes to customer payments, master file and billing rate changes, and any adjustments made to customer accounts, a set of periodic reports will be prepared identifying the changes and adjustments. At least two technically proficient managers above the staff member will review and sign-off on the changes and adjustments reports. For all billing adjustments, sufficient descriptions and related back-up documentation will be prepared. Further, as a "system of record" variance and other analytical reports will be developed and reviewed to prove system accuracy.

Regarding permissions and access to customer data, all of the recommendations noted above will be implemented immediately. The General Manager will assign a staff member to serve as a fully authorized and trained individual to back-up the Administrative Services Manager having the same access to the customer service system. The Finance Department will take a greater role in the billing/receipts process by having the accountant post credits to customer accounts and having other finance staff review and reconcile data from the customer service system to other financial systems of the District.

2. **Gift Cards Provided to Employees**
   Auditor Comment:
   We noted that the District provided gift cards to employees, but did not include the value of the cards in the employee W-2s. According to IRS Publication 15-B, gift cards, regardless of the value, are not excludable as a de minimis benefit. Going forward, we recommend the District include these amounts in the W-2s provided to employees.

   Staff Response:
   The District has had a long practice of handing out $5 gift cards to certain employees recognized by their peers for exceptional service as part of an employee "hats-off" recognition program. The District is looking at alternative ways to recognize such exceptional performance that will not run contrary to federal and state income tax reporting laws. Until a new practice can be established, the District has ceased distributing gift cards.

3. **Expense Reimbursements**
   Auditor Comment:

We noted a few instances in our review of expense reimbursements where no receipt was provided and a lost receipt form was not completed. We also noted that a reimbursement was issued for an expense without information regarding the business purpose of the expense and that a receipt provided by an employee to support an expense reimbursement was not a detailed receipt. The District's policy states a detailed receipt must be provided. We recommend the District ensures that complete records are submitted by the employee requesting the reimbursement and that supporting documentation includes a business purpose and a detail of the expense.

Additionally, we noted an employee requested reimbursement of a meal expense as part of a per diem. However, the meal expense was included in the registration fees for the event the employee attended. As a result, the meal expense was paid twice by the District. We recommend the District verify per diem expenses have not already been paid prior to providing reimbursement.

Staff Response:
Finance Department staff will provide additional training to all District employees and approvers on appropriate support for reimbursement requests. Two Finance Department staff will review all employee expense reimbursement requests prior to reimbursement.

4. **Review of Pension Information**

Auditor Comment:
We recommend that the District ensure that the proper reviews are taking place of the census data maintained by CalPERS, to ensure it is complete and accurate, as this information is used as a basis for calculating the District's share of the net pension liability. Consideration should be given to reviewing census information of all current employees and set up a process for reviewing the census information going forward.

Staff Response:
Pension contribution data has been reviewed by finance staff for many years now. As CalPERS requires payment each pay-period, finance staff reviews and compares the District's payroll register to CalPERS Payroll Support Summary each pay period. This review is performed by the District's Accountant which is then reviewed and signed-off by the Finance Director.

The District will add to its procedures, a secondary review and sign-off by Finance staff of employee data entered into CalPERS by Human Resource staff at the time of hire and for subsequent changes after hire. Due to the senstive nature of this information, such documents will be securely retained by Human Resource staff. Futher, annually, Human Resource and Finance staff will review CalPERS' "Participant Pension Enrollment Report" to assure current employees are in the correct rate plan.

5. **Capital Assets**

Auditor Comment:
The District is currently recording assets based on their identifiable pieces so they are easier to remove when disposed, but this practice was not done in earlier years. As a

result, the District's capital asset list may contain items that are no longer in service, but most of these items are likely fully depreciated. The District is in the process of reviewing the asset list for possible items that can be removed that may no longer be in service.

Staff Response:
The District's capital asset accounting records prior to the formation of SSWD contain minimal information on the location or identity of specific capital assets. The records only indicate the type of asset constructed, e.g., wells, pipeline, etc. and the month/year of purchase. Additionally, for both Northridge Water District and Arcade Water District, similar capital assets were depreciated over significantly different estimated useful lifes. For example, Arcade depreciated pipelines over 80 years, Northridge over 150 years, and SSWD uses 80 years or less. Because of the difficulty in determining exactly which assets were being replaced from the accounting records, until January 2016, the District's practice was to - "if the existing asset's book value is determinable, then the existing asset should be removed from the books at the time the replacement is recorded. If the existing asset is not separately identifiable, then the replacement should still be capitalized as the existing asset's book value is assumed to be negligible."

During 2015, all capital assets, excluding distribution system assets, were reviewed to remove assets that had been replaced over the years. This was done by comparing the accounting records to the asset management and insurance records. The effect of this effort was to remove $982,368 of captital assets (net of depreciation) from the accounting records. For 2016, efforts are being made to update distribution system assets month and year of acquisition in the GIS database so that distribution system assets that have been replaced over the years can be removed from the accounting records. Going forward, all capital assets being replaced will require identification at the time of replacement so that the accounting records can be maintained correctly.

EXHIBIT 4

Sacramento Suburban
Water District

Sacramento, CA

Comprehensive Annual Financial Report

For the Fiscal Years Ended December 31, 2015 and 2014

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Comprehensive Annual Financial Report

For The Fiscal Years Ended December 31, 2015 and 2014

Sacramento Suburban Water District

Sacramento, California

Prepared by:

The Finance Department

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Introductory Section

General Manager

Robert S. Roscoe, P. E.

SACRAMENTO SUBURBAN WATER DISTRICT

CLEARLY REFRESHING SERVICE!

May 18, 2016

Board of Directors
Sacramento Suburban Water District
Sacramento, California

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Sacramento Suburban Water District (District) for the fiscal years ended December 31, 2015 and 2014. The District is required under State law to publish, within six months of the close of each fiscal year, a complete set of basic financial statements presented in conformity with generally accepted accounting principles (GAAP). These basic financial statements are required to be audited in accordance with generally accepted auditing standards, accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*.

This CAFR consists of management's representations concerning the District's finances. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this CAFR. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework designed to protect the District's assets from loss, theft, and misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this CAFR is complete and reliable in all material respects.

The District's basic financial statements have been audited by Richardson & Company, LLP, an independent firm of licensed certified public accountants. In their role as independent auditors, Richardson & Company, LLP worked directly for the Board of Directors and the Board's standing Finance and Audit committee. The goal of the independent audit is to provide reasonable assurance that the District's basic financial statements for the fiscal years ended December 31, 2015 and 2014 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's basic financial statements for the fiscal years ended December 31, 2015 and 2014 are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component in the Financial Section of this CAFR.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be

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found immediately following the Independent Auditor's Report in the Financial Section of this CAFR.

District Profile

The District's mission is "to deliver a high quality, reliable supply of water and superior customer service at the lowest responsible water rate." District goals in support of this mission include: assure a safe and reliable supply of high quality water in an environmentally responsible and sustainable manner for District customers; plan, construct, operate and maintain the District water system facilities embracing sustainable practices to provide reliable delivery of high quality water; assure superior customer service; ensure effective and efficient management and public reporting of all District financial processes; and provide leadership on regional, statewide and national water management issues that affect the District.

The District was formed on February 1, 2002 under the State of California's County Water District Law by the consolidation of the Northridge Water District and the Arcade Water District. The consolidation was approved and ordered by the Sacramento County Local Agency Formation Commission. The District is located in northern Sacramento County, California and includes portions of the unincorporated area of Sacramento County, Antelope, Carmichael, Citrus Heights, Foothill Farms, and North Highlands; small portions of the cities of Sacramento and Citrus Heights; and all of McClellan Business Park (formerly McClellan Air Force Base). The District, which serves water to a population of approximately 174,434, generally is divided in two service areas. The North Service Area is comprised mainly of the former Northridge Water District's territory, the Arcade Water District's North Highlands service area and McClellan Business Park. The South Service Area is comprised mainly of the former Arcade Water District's Town and Country territory.

The District is governed by a 5-member board of directors, each of which is elected to four-year terms from geographical divisions by the registered voters residing in each division of the District. The terms of the Directors are staggered, with the Directors from Divisions 1 and 2 elected at the same Statewide general election and the Directors from Divisions 3, 4 and 5 elected at the general election two years later.

The District's service area covers approximately 36 square miles. The District's territory is substantially built out. Based on Sacramento Area Council of Governments projections, the District's population is expected to be 216,600 in 2035, when the District is expected to be fully built out. Other than residential and commercial in-fill projects, and industrial and commercial development at the McClellan Business Park, the District does not expect significant additional development within its territory.

The service area experiences cool and humid winters and hot and dry summers. The combination of hot and dry weather results in higher water demands during the summer than in winter. Fluctuation in water production from year-to-year typically results from weather conditions in the spring and fall. Demand during the summer and winter generally does not vary significantly from one year to the next with the notable exception of recent drought conservation efforts. The District's water conservation efforts, including ongoing meter retrofitting, have resulted in a lowering of per capita water use over the past several years.

The distribution system has roughly 680 miles of pipeline that range in size from 48-inch transmission mains down to 2 and 4-inch laterals. There are 53 emergency interties with neighboring agencies along the District's boundary. The District has 7 storage tanks with a collective capacity to hold approximately 16 million gallons of water. There are a total of 6 booster pumping stations in the District, three of which are co-located with major storage tanks.

Water Supplies and Management

California is beginning its fifth consecutive year of drought. While the District continues to enjoy an ample supply of water due to its investment in both surface water and groundwater infrastructure and supply sources, in response to Executive Orders issued by the Governor in both 2014 and 2015, the District adopted a "Water Shortage Contingency Plan" (Plan). In 2014, the Plan, amongst other actions, asked customers to voluntarily reduce their water consumption by 20%. In 2015, due to mandatory actions implemented by the California State Water Resources Control Board, beginning in June, customers were asked to reduce their water consumption by 32% compared to a base year of 2013/2014. As a result of these efforts, District water usage declined by 15.8% in 2015 compared to calendar year 2014 and 16.0% in 2014 compared to calendar year 2013.

The water supply of the District is a combination of both surface water and groundwater. Historically, the District had used groundwater as its water supply source; however, in 1998, the District initiated a conjunctive use program, supplementing its groundwater supply with surface water to address the declining groundwater table using in-lieu recharge. The District has made significant investments to put surface water supply and conjunctive use facilities in place, and as a result of these investments, groundwater levels have stabilized or improved.

The District pumps its groundwater from approximately 76 active wells. All of the wells pump directly into the distribution system and range between 232 and 986 feet deep. The wells of the District are located in the North American Groundwater Basin north of the American River. While groundwater levels fluctuate based on hydrological conditions, groundwater levels historically declined within the District over the 50 years prior to the millennium at an average rate of approximately 1.5 to 2.0 feet per year. Since 2000, however, groundwater levels in the portion of the North American Groundwater Basin from which the District pumps water have stabilized, in large part because of increasing surface water acquisitions by the District in addition to customer conservation practices. Total maximum daily production from the District's wells is 126.5 million gallons and is sufficient to supply 100 percent of water demand within the District with a reasonable factor of safety. The District is part of the Sacramento Groundwater Authority (SGA), a regional entity formed to manage, stabilize and sustain the Groundwater Basin. Under the provisions of SGA, the District's annual pumping allotment for groundwater is 35,035 acre-feet. Amounts pumped in excess or below this limit are subtracted or added to the District's "Exchangeable Water Balance" (banked groundwater). As of December 31, 2015, the District has banked groundwater of 187,960 acre-feet that it may use at its discretion subject to limitations placed on the District such as the Governor's Drought Emergency Executive Orders.

In addition to groundwater, the District currently imports surface water from three supply sources when available. The District purchases surface water from Placer County Water Agency (PCWA), supplied from the Middle Fork American River and delivered to Folsom Reservoir and Section 215 Central Valley Water Project water from the United States Bureau of Reclamation (USBR), when available. The PCWA and USBR water is treated by San Juan Water District at the Peterson Water Treatment Plant pursuant to contract and then conveyed through District-owned transmission pipelines or contracted pipeline capacity into the District's water distribution system in the North Service Area. Commencing in 2007, the District also began receiving American River water purchased pursuant to a contract with the City of Sacramento (City). The City water is diverted and treated by the City at its E.A. Fairbairn Water Treatment Plant and conveyed through District-owned pipeline capacity for distribution to customers in the District's South Service Area. All of these sources of surface water ultimately depend upon unimpaired inflow to Folsom Reservoir, or releases from Folsom Reservoir to the Lower American River, and are not available in all years or at all times. The District generally plans to increase surface water deliveries and reduce groundwater deliveries during wet hydrological years and to rely on groundwater deliveries and reduce surface water deliveries during dry hydrological years in a conjunctively managed fashion.

Revenue Sources

The District's annual revenues come primarily from water sales. Operating revenues segregate water sales into three components used by the District in setting its water rate structure: consumption charges, service charges and capital facility charges. In addition, the District receives operating revenues from treated water passed through its conveyance system to neighboring water districts as well as from fees charged for certain District services, including penalty charges. Periodically, the District also receives operating revenue from water transfer sales.

The District continues to be in a period of transition as water meters are installed on unmetered residential connections and customers are gradually converted from flat rate accounts to metered rate accounts. Presently, 78 percent of the District is metered, with all connections expected to be fully metered before the year 2025. Current flat rate accounts include a fixed monthly service charge with a "variable" charge based on parcel size. The fixed portion of the charge reflects the estimated fixed costs of service as well as a base water allotment considered sufficient for indoor usage. The portion of the service charge tied to parcel size is intended to reflect an estimate of water usage for irrigation purposes. A capital facility charge is applied based on connection size and is intended to cover pay-as-you-go capital improvements and debt service charges. The District offers a water meter and metered billing to any flat-rate customer on request.

Current residential metered rates include fixed service charges plus two-tier water usage rates as well as a capital facility charge based on connection size. The tier structure includes 10 cubic feet (CCF) per month at a lower initial rate with usage in excess of 10 CCF at a higher rate. 10 CCF is equivalent to roughly 250 gallons per day, and is intended to approximate typical indoor water usage for residential customers.

Non-residential customers are subject to fixed service charges plus a seasonal water usage rate structure as well as a capital facility charge based on connection size. Under the seasonal rates a higher rate applies to water usage during peak months (May through October) and a lower rate during non-peak months (November through April). All non-residential customers are on metered accounts.

The District's other routine sources of revenue come primarily from state and federal capital grants, developer contributions, rental income and investment income.

Local Economy[1]

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates. Sacramento County (County) is the eighth most populous county in California with a population of roughly 1.5 million and is home to the state's capital. The County sits in the middle of the agriculturally rich 400-mile long Central Valley of California. Sacramento's four-county metropolitan statistical area (metro-area) is the largest metro-area in the Central Valley and is the fifth largest metro-area in the state. From 2009-2014, the population of Sacramento County grew at an annual average rate of 0.7%. Employment in the County consists of a labor force of 685,900 with an unemployment rate of 5.9% in 2015 down from 7.3% in 2014. Employment and population are projected to grow by an average 1.8% and 1.2% per annum, respectively, over the next five years in the County.

The County's economy is broadly based. Government, professional and business services are the largest sectors of employment in the area, while education, healthcare, wholesale and retail trade and leisure and hospitality follow. Because it contains the state capital, the County's economy is highly influenced by the public sector. Government

[1] Source: State of California, Department of Transportation, Socio Economic Files, Sacramento County Economic Forecast.

jobs account for almost 26% of total wage and salary employment. Healthcare providers such as UC Davis Health Systems, Sutter Health, Kaiser Permanante and Dignity Health, along with technology based Intel are large private employers in the county. Job creation over the next five years is expected to come predominantly from professional and business services, education, healthcare, construction and government.

Long-Term Financial Planning

The District currently has several major construction projects underway. These projects involve rehabilitation or replacement of existing facilities to ensure system reliability, to enhance operational efficiency, to protect the environment and public health, and to comply with water quality regulations. With an aging infrastructure, over the past several years the District has dedicated significant resources to the development of a comprehensive infrastructure assessment and the establishment of specific asset management plans for the ultimate needs of its facilities (typically to the end of each asset's useful service life). These asset plans are intended to allow the District to better plan and budget for future capital facility needs, consisting primarily of capital replacements, which is one of the most significant challenges facing the District. As the future capital needs of the District are primarily repair and replacement projects, the District intends to fund such projects through pay-as-you-go financing rather than the issuance of additional debt.

Relevant Financial Policies and Controls

Key District Financial Policies include the Water Service Charges and Rate Setting Policy, Reserve Policy, Debt Management Policy and the Budget Policy. Such policies, when coupled with the District's Internal Control Structure, guide and protect the financial position of the District.

Water Service Charges and Rate Setting Policy
This policy serves to provide guidance and consistency in District financial planning and the rate setting decision-making process for the Board of Directors and staff. The policy also provides a foundation for the long-term financial sustainability of the District, while providing the outside financial community with a better understanding of the District's commitment to managing itself in a financially prudent and sustainable manner.

Reserve Policy
The purpose of this policy is: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to mitigate certain risks. Collectively, these funds enable the District to operate in a safe and prudent manner, with the Policy providing for appropriate oversight.

Debt Management Policy
The District recognizes the issuance of long-term debt is a valuable funding source. Used appropriately and prudently, long-term debt can minimize the District's water system charges and rates over time. However, to minimize dependency on debt financing for capital projects, the District strives to fund annual renewal and replacement capital projects from rates. The District intends to manage itself to at least meet, and potentially exceed the minimum and target Debt Service Coverage (DSC) requirements imposed by bond covenants. The District will not issue long-term debt to support operating costs.

Budget Policy
The District's budget serves as the foundation for financial planning and control. The budget is a one year financial plan for operating and maintenance expenses and capital projects and is adopted by the Board of Directors prior to each new calendar year. The budget is based on certain policies set by the Board of Directors

and is reviewed monthly as part of the District's regular financial reporting process. The Board of Directors must approve all supplemental amendments to the budgets and transfers between budgets. The General Manager directs the Finance Director/District Treasurer in transfers between category levels within individual adopted budgets throughout the fiscal year with subsequent reporting to the Board of Directors.

Internal Controls

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse. The internal control composition also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles and other reporting, including regulatory reporting, in accordance with the requirements of such reporting. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Major Initiatives

Major initiatives the District is pursuing involve regional efforts concerning water supply and quality, including water conservation and water metering. Selected from the recently developed asset management plans, the 2015 budget calls for certain capital improvement projects totaling $18.4 million. Major projects include: well replacements and rehabilitation of $4.0 million; distribution main replacements and improvements of $9.2 million; and water meter installations and replacements totaling $2.0 million.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the year ended December 31, 2014. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of this CAFR was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the Board of Directors for their continued support in the planning, implementation and oversight of the financial and internal control policies of the District.

Respectfully submitted,

Robert S. Roscoe
General Manager

Daniel A. Bills
Finance Director and
District Treasurer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento Suburban Water District

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2014

Executive Director/CEO

Principal District Officials

Board of Directors - Elected Officials

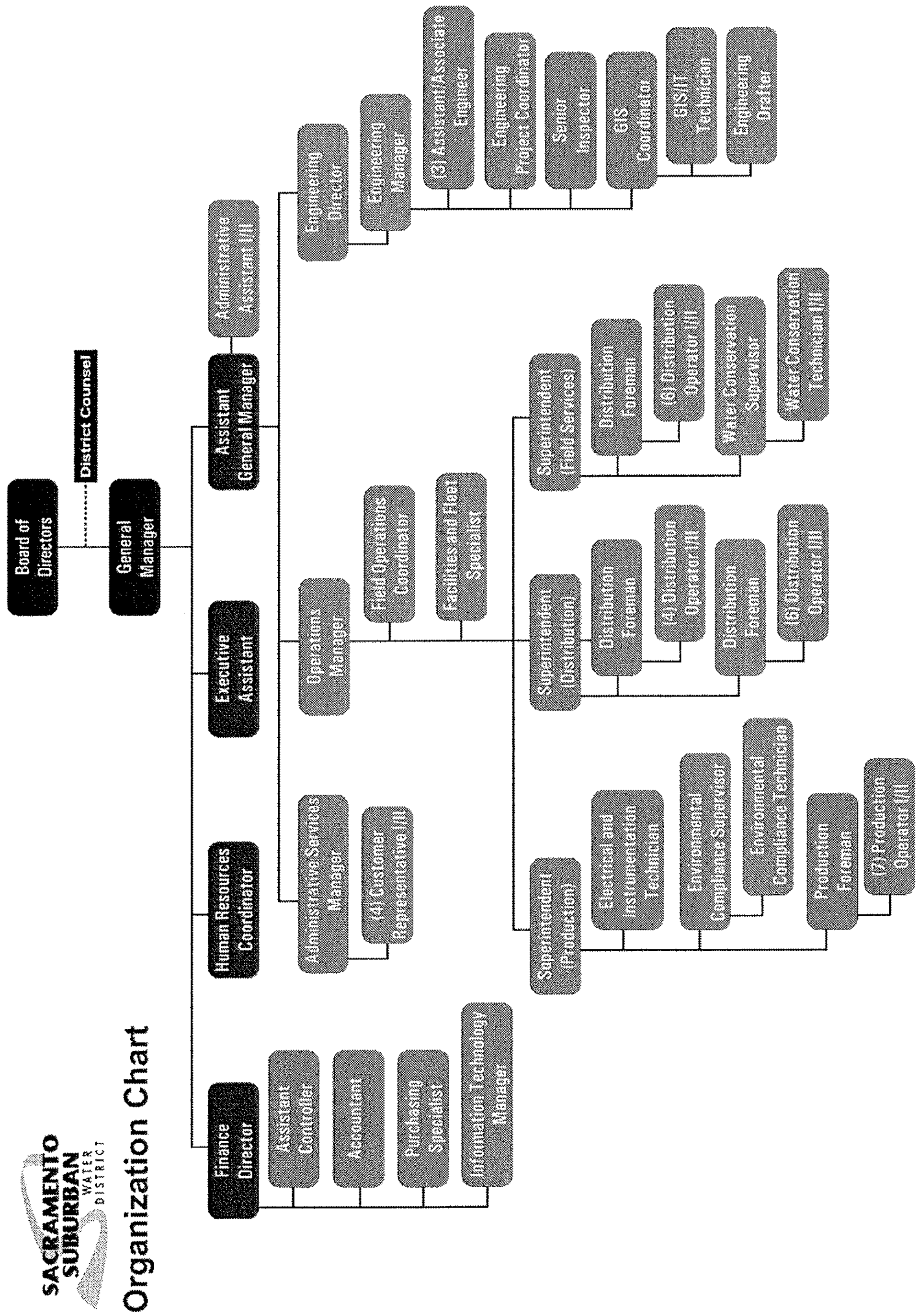
Title	Name	Division	Current Term
President	Kevin M. Thomas	Division 4	12/2014-12/2018
Vice President	Robert P. Wichert	Division 3	12/2014-12/2018
Director	Frederick A. Gayle	Division 1	12/2012-12/2016
Director	Craig M. Locke	Division 5	12/2014-12/2018
Director	Neil W. Schild	Division 2	12/2012-12/2016

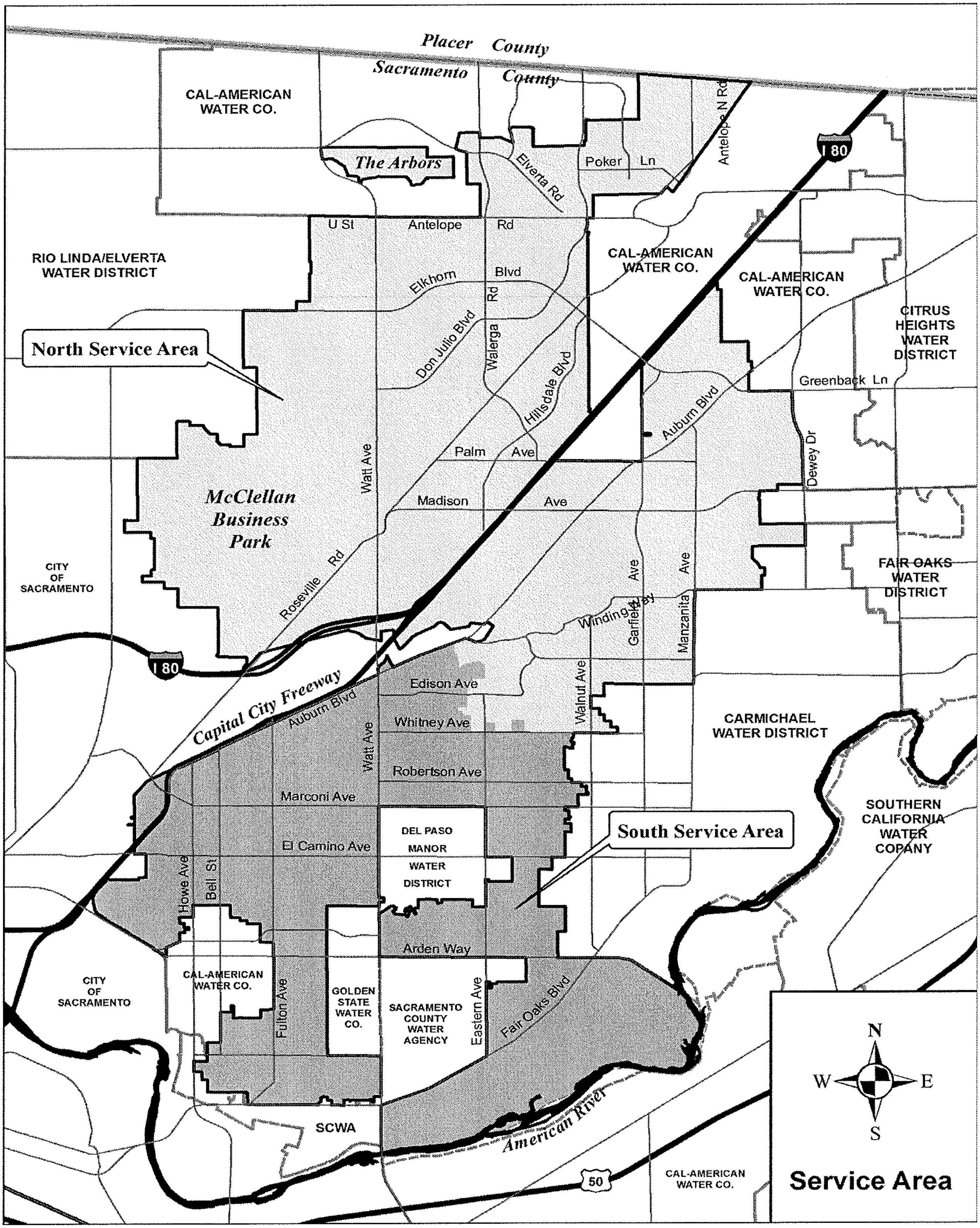
Staff - Appointed Officials

Title	Name
General Manager and Secretary	Robert S. Roscoe
Finance Director and District Treasurer	Daniel A. Bills
District Counsel	Bartkiewicz, Kronick & Shanahan, Joshua M. Horowitz

Additional Key Management Staff

Title	Name
Assistant General Manager	Daniel R. York
Operations Manager	James E. Arenz
Technical Services Director	Mitchell S. Dion
Administrative Services Manager	Annette L. O'Leary


SACRAMENTO SUBURBAN WATER DISTRICT
Organization Chart
Board of Directors
District Counsel
General Manager
Finance Director
Human Resources Coordinator
Executive Assistant
Assistant General Manager
Administrative Assistant I/II
Assistant Controller
Accountant
Purchasing Specialist
Information Technology Manager
Administrative Services Manager
(4) Customer Representative I/II
Operations Manager
Field Operations Coordinator
Facilities and Fleet Specialist
Engineering Director
Engineering Manager
(3) Assistant/Associate Engineer
Engineering Project Coordinator
Senior Inspector
GIS Coordinator
GIS/IT Technician
Engineering Drafter
Superintendent (Production)
Electrical and Instrumentation Technician
Environmental Compliance Supervisor
Environmental Compliance Technician
Production Foreman
(7) Production Operator I/II
Superintendent (Distribution)
Distribution Foreman
(4) Distribution Operator I/II
Distribution Foreman
(6) Distribution Operator I/II
Superintendent (Field Services)
Distribution Foreman
(6) Distribution Operator I/II
Water Conservation Supervisor
Water Conservation Technician I/II


Placer County
Sacramento County
CAL-AMERICAN WATER CO.
The Arbors
Elverta Rd
Poker Ln
Antelope N Rd
I 80
U St
Antelope Rd
RIO LINDA/ELVERTA WATER DISTRICT
CAL-AMERICAN WATER CO.
CAL-AMERICAN WATER CO.
Elkhorn Blvd
Walerga Rd
Don Julio Blvd
CITRUS HEIGHTS WATER DISTRICT
North Service Area
Hillsdale Blvd
Greenback Ln
Auburn Blvd
Palm Ave
Dewey Dr
Watt Ave
McClellan Business Park
Madison Ave
CITY OF SACRAMENTO
Roseville Rd
Garfield Ave
Manzanita Ave
FAIR OAKS WATER DISTRICT
Winding Way
I 80
Capital City Freeway
Edison Ave
Auburn Blvd
Walnut Ave
Whitney Ave
CARMICHAEL WATER DISTRICT
Watt Ave
Robertson Ave
Marconi Ave
SOUTHERN CALIFORNIA WATER COPANY
DEL PASO MANOR WATER DISTRICT
El Camino Ave
South Service Area
Howe Ave
Bell St
Arden Way
CAL-AMERICAN WATER CO.
CITY OF SACRAMENTO
Fulton Ave
GOLDEN STATE WATER CO.
SACRAMENTO COUNTY WATER AGENCY
Eastern Ave
Fair Oaks Blvd
N
W
E
S
SCWA
American River
50
CAL-AMERICAN WATER CO.
Service Area

Financial Section

RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sacramento Suburban Water District
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento Suburban Water District (the District), which comprise the statement of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2015 and 2014 and the results of its operations and

To the Board of Directors
Sacramento Suburban Water District

Change in Accounting Principle

As discussed in Note 2 to the basic financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended December 31, 2014. Due to the implementation of these Statements, the District recognized a pension liability and related deferred outflows for its pension plan as of January 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Correction of Errors

As discussed in Note 2, adjustments were made to remove capital assets the District no longer has on hand. Accordingly, an adjustment has been made to capital assets and the investment in capital assets portion of net position as of January 1, 2014 and change in net position for 2014 to correct these errors.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the Schedule of Funding Progress – Other Postemployment Benefits on pages 3 through 12, 54 and 55 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Districts basic financial statements. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

May 18, 2016

Sacramento Suburban Water District
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2015 and 2014

The following Management's Discussion and Analysis (MD&A) provides a general overview and analysis of the financial activities and performance of the District for the years ended December 31, 2015 and 2014. Readers are encouraged to consider the information presented here in conjunction with the Transmittal Letter and the Independent Auditor's Report which precedes this analysis, and the Basic Financial Statements and related Notes to the Basic Financial Statements (Notes), which follow.

Operational Activities and Highlights

Operating activity of the District varies, sometimes significantly, from year to year with the resulting changes affecting District revenues, expenses, capital project expenditures and overall cash flows. Those activities that tend to drive District costs most notably for the periods ending December 2015, 2014, and 2013, are highlighted below.

Water Activities and Highlights

- California is beginning its fifth consecutive year of drought. While the District continues to enjoy an ample supply of water due to its investment in both surface water and groundwater infrastructure and supply sources, in response to Executive Orders issued by the Governor in both 2014 and 2015, the District adopted a "Water Shortage Contingency Plan" (Plan). In 2014, the Plan, amongst other actions, asked customers to voluntarily reduce their water consumption by 20 percent. In 2015, due to mandatory actions implemented by the California State Water Resources Control Board, beginning in June, customers were asked to reduce their water consumption by 32 percent compared to a base year of 2013/2014. As a result of these efforts, District water usage declined by 15.8 percent in 2015 compared to calendar year 2014 and 16.0 percent in 2014 compared to calendar year 2013. Accordingly, water consumption sales declined by $1.55 million (14 percent) in 2015, excluding a 4.0 percent rate increase effective January 1, 2014, compared to 2014 and $1.6 million (13 percent) in 2014 compared to 2013. When coupled with corresponding reductions in water supply and pumping expenses, the net effect to the District of the reduced water sales was $1.5 million in 2015 and $1.2 million in 2014.

- In addition to the Drought Emergency Declarations of 2015 and 2014, state law requires the District to reduce its per capita water consumption by 20 percent by the year 2020 when compared to a "baseline period," which for the District is the average per capita usage for the years 1997 to 2006. The District is on track to meet this mandate, utilizing various conservation measures such as water audits, outreach programs, water metering and monitoring during periods of peak demand.

- For the period ended December 31, 2015, the District supplied 27,502 acre-feet of water to 46,414 retail connections, compared to 32,676 acre-feet of water to 46,112 connections in 2014, and 38,902 acre-feet of water to 45,391 connections in 2013. Effectively, all of the water supplied for the periods ended December 31, 2015, 2014 and 2013, was groundwater.

- The District continues to enjoy access to groundwater and, when available, surface water sources that meet drinking water requirements. If the water quality of a source exceeds the regulatory threshold of a constituent, that source is removed from active service or, treatment is provided to ensure that water delivered to the District's customers meets the regulatory requirements established by the USEPA and the State Water Resources Control Board's Division of Drinking Water. Regulations governing drinking water quality require that the District comply with certain maximum contaminant levels established at the federal and state levels. The District regularly tests for over 120 different constituents in its raw and treated water. The results of any detected constituents are published in the "Consumer Confidence Report" or, "Annual Water Quality Report" that is distributed each year by early summer.

Capital Project Activities and Highlights

- The District is continuously working on various major construction projects, most of which are related to the replacement of distribution system mainlines that are near the end of their useful service life and the installation of water meters meeting state law requirements as discussed more fully below. In 2015, approximately 6.5 miles of new pipeline and appurtenances were installed at a cost of $12.0 million, compared to 10.6 miles in 2014 and 9.1 miles in 2013 at costs of $10.5 million and $13.2 million, respectively. Additionally, in 2015 a large pumping facility was jointly constructed with a neighboring water district at a cost of $3.8 million. Upon completion, the District sold a capacity entitlement in the facility to the neighboring water district for $2.9 million. Total expenditures for all capital projects in 2015, 2014, and 2013 were $18.6 million, $20.2 million and $19.8 million, respectively.

- In accordance with state law, the District is continuing its progress to have all its connections on water meters by the year 2025. During 2015, 1,791 new meters were installed, compared to 1,984 in 2014 and 2,590 in 2013. The increase in 2013 was due to the receipt of additional federal and state grants to accelerate water meter installation in the amount of $198,000 and $274,000, respectively. With the additional grant funding, the District was able to install another 462 water meters at a reduced cost to its customers. As of December 31, 2015, approximately 78 percent of the District's connections are on water meters compared to 75 percent at the end of 2014 and 71 percent at the end of 2013. Accordingly, the District is on track to meet this mandate.

Description of the Basic Financial Statements

The Basic Financial Statements are designed to provide readers with a broad overview of the District's finances. Since the District's primary function is to deliver a high quality, reliable supply of water to its consumers and recover the associated costs through customer fees and charges, the Basic Financial Statements report activities in a manner similar to a private-sector business. The Basic Financial Statements are as follows:

The Statements of Net Position present information on all the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with debt covenants. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the years ended December 31, 2015 and 2014. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. In other words, the District reports expenses and revenues on an accrual basis rather than a cash basis.

The Statements of Cash Flows present information on the sources and uses of cash within the District throughout the year that serves to explain the change in the amount of the District's cash and cash equivalents that are on hand at the end of each year. Cash generation and/or usage from four different activity-types of the District are provided: operations, non-capital financing, capital and related financing, and investing.

The Notes to the Basic Financial Statements (Notes) provide additional information that is essential to a full understanding of the data provided in the Basic Financial Statements.

The Required Supplementary Information Section of this Comprehensive Annual Financial Report (CAFR) includes information describing the District's contributions to, and funding progress of, the postemployment benefits other than pensions for District employees.

The Statistical Section of this CAFR provides selected financial and operational data over the last ten years where available, which includes the Schedule of Net Revenues showing the District's debt service coverage ratio.

Condensed Statements of Net Position

(Dollars in Thousands)

		Restated		Restated	
Assets	**2015**	**2014**	**Change**	**2013**	**Change**
Current assets	$ 7,258	$ 4,611	$ 2,647	$ 9,632	$ (5,021)
Non-current assets	40,702	43,456	(2,754)	44,416	(960)
Capital assets, net	279,822	270,656	9,166	259,061	11,595
Total assets	327,782	318,723	9,059	313,109	5,614
Deferred outflows	9,276	9,743	(467)	9,715	28
Liabilities					
Current liabilities	8,583	7,935	648	7,840	95
Non-current liabilities	101,940	105,793	(3,853)	111,250	(5,457)
Total liabilities	110,523	113,728	(3,205)	119,090	(5,362)
Deferred inflows	799	1,819	(1,020)	2,565	(746)
Net position					
Net investment in capital assets	188,692	175,735	12,957	160,474	15,261
Restricted for debt service fund	3,523	3,540	(17)	3,520	20
Unrestricted	33,521	33,644	(123)	37,175	(3,531)
Total net position	$ 225,736	$ 212,919	$ 12,817	$ 201,169	$ 11,750

Referring to the table above, total assets increased by $9.1 million compared to December 31, 2014, to a total of $327.8 million as of December 31, 2015. The principal reason for the increase continues to be investments in capital assets as the District replaces its aging infrastructure. The source of funds for capital projects is primarily customer "Capital Facility Charges" collected monthly, as well as state and federal grants when available.

Current assets increased by $2.6 million in 2015 compared to a decrease of $5.0 million in 2014. The 2015 increase was primarily due to the liquidation of $3.2 million of investments during the year (investments are classified as non-current assets) and a $1.1 million increase in receivables resulting from a joint capital project with a neighboring water district. The 2014 decrease was primarily attributable to investing an additional $1.0 million of cash, reduced receivables of $0.8 million as grant monies owing from 2013 were received and an overall reduction in cash primarily due to decreased water consumption sales revenues resulting from drought related water conservation requirements as discussed previously. In addition, since 2010 current assets have generally decreased due to actions taken by the Board of Directors (Board) to reduce District cash reserve levels by adopting annual budgets where anticipated expenses exceed expected revenues.

Non-current assets decreased by $2.8 million in 2015, compared to a decrease of $1.0 million in 2014. The decrease in 2015 is primarily attributable to the liquidation of $3.2 million in investments needed for operations as discussed above. The decrease in 2014 is primarily attributable to a decrease in the negative fair market value of the interest rate swap (swap) that hedges a portion of the Series 2009A COP obligation (see Notes 1 and 8 and the non-current liability analysis below). Investments comprise the majority of non-current assets. The District continues to invest most of its available cash in the capital markets and maintains a minimal investment in the state's investment pool. The investment portfolio had an unrealized market value gain of $0.1 million as of December 31, 2015 compared to an unrealized loss of $0.3 million as of December 31, 2014 and 2013.

Capital assets, net, increased $9.2 million in 2015 due primarily to the construction and replacement of a portion (6.5 miles) of the District's transmission and distribution system, the construction of a large pumping facility, the addition of water infrastructure appurtenances such as fire hydrants, pressure reduction valves and water valves, and the installation of 1,791 new water meters. Several other capital asset construction projects are in various stages of completion with costs incurred as of December 31, 2015 amounting to $5.3 million (see Note 6).

As of December 31, 2015 and 2014, deferred outflows primarily include deferred gains and losses on advance debt refundings as well as deferred outflows of resources also includes the "on-market" portion of the negative fair market value of the swap (see Notes 1 and 8) . As more fully described in Note 2, deferred outflows also include pension contributions made subsequent to the net pension liability measurement date of June 30 in accordance with the provisions of Government Accounting Standards Board (GASB) Statements No. 68 and 71.

Total liabilities decreased by $3.2 million to $110.5 million as of December 31, 2015. The decrease in 2015 primarily reflects expected decreases in the amount of debt outstanding due to scheduled principal payments of $3.8 million. Similarly, the $5.4 million decrease in 2014 primarily reflects scheduled debt principal payments of $3.7 million as well as a $1.9 million decrease in the District's net pension liability calculated upon the implementation of GASB Statements No. 68 and 71.

Non-current liabilities - As part of its debt management strategy, the $89.6 million debt principal outstanding as of December 31, 2015 includes both fixed-rate debt - $47.6 million, and variable-rate debt - $42.0 million (as of December 31, 2014 and 2013, the District had debt principal outstanding of, $93.4 million and $97.0 million, respectively). The variable-rate debt is supported by an irrevocable direct-pay Letter of Credit provided with an international bank that expires in June 2018, and is partially hedged by a pay-fixed, receive-variable interest rate swap with a notional amount of $33.3 million as of December 31, 2015, 2014 and 2013. During 2012, the terms of the swap were changed resulting in an "imputed borrowing" equivalent to the negative fair market value of the "off-market" portion of the swap of $6.7 million at the time of restructure, the unamortized portion of which is $5.6 million, and is reported as a component of long-term debt in the Statements of Net Position. As of December

31, 2015, the negative fair market value of the swap decreased from negative $7.4 million as of December 31, 2014 to negative $7.5 million. Accordingly, the fair market value of the "on market" component of the swap, reported as a deferred outflow of resources and a noncurrent liability, increased to $0.8 million. The imputed borrowing "off-market" portion of the swap, which is amortized over the life of the swap, was $5.6 million and $5.9 million as of December 31, 2015 and 2014, respectively (see Note 8).

The District realized an overall increase in net position of $12.8 million for the year ended December 31, 2015, compared to $11.8 million and $14.2 million for the years ended December 31, 2014 and 2013, respectively. The components of net position as of December 31, 2015 are:

- The largest component of District net position is the District's net investment in capital assets which increased by $13.0 million to $188.7 million as of December 31, 2015, and is comprised of total capital assets (net of accumulated depreciation) plus deferred outflows on long-term debt refundings less related long-term debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

- Restricted net position consists solely of debt reserves held in escrow for the District's debt obligations. Changes to this amount in any one year are minor and typically reflect interest earned or market value changes on invested reserves held in escrow.

- At the end of 2015, 2014 and 2013, the District showed a positive balance in its unrestricted net position of $33.5 million, $33.6 million, and $37.2 million, respectively. The decrease of $0.1 million in the unrestricted net position for 2015 reflects the District's commitment to its operating and capital plans, and is an indicator that the District's financial condition remains strong.

Condensed Statements of Revenues, Expenses and Changes in Net Position

(Dollars in Thousands)

	2015	Restated 2014	Change	Restated 2013	Change
Revenues					
Operating revenues	$ 38,690	$ 38,930	$ (240)	$ 41,319	(2,389)
Rental revenue	250	286	(36)	307	(21)
Interest and investment revenue	458	548	(90)	89	459
Grant revenue pass-through to sub recipients	369	948	(579)	-	948
Other non-operating revenues	114	107	7	92	15
Total revenues	39,881	40,819	(938)	41,807	(988)
Expenses					
Operating expenses	16,854	15,962	892	16,324	(362)
Depreciation and amortization	11,257	10,812	445	10,424	388
Interest expense	3,633	3,802	(169)	3,914	(112)
Sub recipient grant expense	369	948	(579)	-	948
Total expenses	32,113	31,524	589	30,662	862
Net revenue before capital contributions	7,768	9,295	(1,527)	11,145	(1,850)
Capital contributions	5,049	2,455	2,594	3,096	(641)
Change in net position	12,817	11,750	1,067	14,241	(2,491)
Net position, beginning of year	212,919	201,169	11,750	194,437	6,732
Restatement				(7,509)	7,509
Net position, end of year	$ 225,736	$ 212,919	$ 12,817	$ 201,169	$ 11,750

From the table above it can be seen that the District's net position increased by $12.8 million for the period ended December 31, 2015 compared to $11.8 million for 2014 and $14.2 million in 2013. The increases result from a variety of factors as described more fully below.

The District's operating revenues come primarily from its customers. The District charges a metered rate to its commercial customers and a metered or flat rate to residential customers depending on whether the service connections of such customers have a water meter. All District customers, regardless of the type of service, are charged an operation and maintenance charge (service charge) and a capital facilities charge based on the size of their respective service lines. Capital facility charges are established for the purpose of paying for capital project and debt service costs.

In addition, as shown in the table above, and as more fully illustrated in the table below, operating revenues decreased by $0.2 million (0.6 percent) compared to the year ended December 31, 2014, primarily due to the decrease in retail water consumption sales of $1.2 million as retail water production was down 15.8 percent primarily due to drought related water conservation requirements as described more fully above in the section above entitled "Water Activities and Highlights." Mostly offsetting the decrease in water consumption sales revenue was a 4.0 percent general water rate increase that was effective for all of 2015. In 2014, operating revenues decreased $2.4 million (5.8 percent) primarily due to a decrease in retail water consumption sales of $1.6 million as retail water production was down 16.0 percent primarily due to drought conservation efforts of District customers and nonrecurring water transfer revenues of $0.5 million.

Operating Revenues

(Dollars in Thousands)

	2015	2014	Change	2013	Change
Operating Revenues					
Water consumption sales	$ 9,644	$ 10,827	$ (1,183)	$ 12,451	$ (1,624)
Water consumption sales – transfers	-	-	-	536	(536)
Water service charge	6,402	6,306	96	6,608	(302)
Capital facilities charge	21,646	20,678	968	20,650	28
Wheeling water charge	6	6	-	6	-
Other charges for services	992	1,113	(121)	1,068	45
Total operating revenues	$ 38,690	$ 38,930	$ (240)	$ 41,319	$ (2,389)

Non-operating revenues consist primarily of rental revenue, interest and investment income, and grant revenue to be passed through to subrecipients as the District was the lead agency in securing various grants.

Interest and Investment Income – Most of the District's unrestricted cash is invested in fixed-income marketable securities. The yield to maturity on the unrestricted market portfolio as of December 31, 2015, 2014, and 2013 was 1.32 percent, 1.02 percent, and 0.88 percent, respectively. The District also invests its restricted cash in fixed-income market securities. The yield to maturity on the restricted portfolio as of December 2015 was 0.76 percent.

Grant Income – From time-to-time, the District also receives financial assistance from other governmental agencies in the form of grants. In the years ended December 31, 2015, 2014 and 2013, the District received $0.4 million, $-0- and $1.4 million, respectively, in federal and state grant funds for the purposes of installing a new pumping facility, a new well site and the installation of water meters to accelerate the District's Water Meter Replacement Plan that has been established to meet state law.

Capital Contributions – The District receives revenue in the form of water system assets donated by developers that have been inspected by District staff and meet District standards. The District utilizes such assets to meet the needs of certain of its customers. After a one-year warranty period, the developer is no longer liable to the District. All such assets are accounted for at fair market value at the time of the donation. In 2015, the fair market value of such donated assets was $1.2 million, compared to $1.9 million in 2014 and $1.6 million in 2013.

Operating Expenses

(Dollars in Thousands)

	2015	Restated 2014	Change	Restated 2013	Change
Operating Expenses					
Source of supply	$ 57	$ 67	$ (10)	$ 279	$ (212)
Source of supply – transfers	-	-	-	127	(127)
Pumping	5,124	4,631	493	4,706	(75)
Transmission and distribution	3,621	3,643	(22)	3,886	(243)
Water conservation	773	399	374	321	78
Customer accounts	1,159	1,122	37	1,086	36
Administrative and general	6,120	6,100	20	5,919	181
Total operating expenses	$ 16,854	$ 15,962	$ 892	$ 16,324	$ (362)

Operating expenses are primarily comprised of purchased treated surface water, electrical and chemical treatment costs of producing well water, ongoing system repairs and maintenance, and employee salaries and benefits. The volatility of such expenses from one year to another is primarily driven by the amount of surface water purchased in that year compared to the previous year. As shown in the table above, operating expenses increased in 2015 by $0.9 million (5.6 percent) relative to 2014, primarily due to increased pumping costs as five major well rehabilitation projects began in 2015. Additionally, due to the dry hydrological conditions in 2015 and 2014, significant increases in customer outreach programs and staffing for water conservation awareness and incentive rebate programs were undertaken. In 2014, operating expenses decreased by $0.4 million (2.2 percent) primarily due to decreased surface water purchases and water transfers as described above.

Non-operating expenses consist primarily of interest expense on the District's debt and the pass-through of grant revenues to subrecipients on grants where the District was the lead agency in securing the grant. Interest expense decreased by $0.2 million in 2015 relative to 2014, due primarily to reduced debt principal outstanding, as market rates were relatively stable in both years. In 2014, non-operating expenses also included $1.0 million of grant monies passed through to subrecipients.

Capital Asset Administration

(Dollars in Thousands)

Changes in capital asset amounts for 2015 were as follows:

	Restated Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Capital assets:				
Non-depreciable assets	$ 9,754	$ 19,168	$ (18,743)	$ 10,179
Depreciable & amortizable assets	398,750	19,998	(29)	418,719
Accumulated depreciation & amortization	(137,848)	(11,257)	29	(149,076)
Total capital assets, net	$ 270,656	$ 27,909	$ (18,743)	$ 279,822

Changes in capital asset amounts for 2014 were as follows:

	Restated Balance 2013	Additions/ Transfers	Deletions/ Transfers	Restated Balance 2014
Capital assets:				
Non-depreciable assets	$ 6,022	$ 20,680	$ (16,948)	$ 9,754
Depreciable & amortizable assets	380,164	18,675	(89)	398,750
Accumulated depreciation & amortization	(127,125)	(10,812)	89	(137,848)
Total capital assets, net	$ 259,061	$ 28,543	$ (16,948)	$ 270,656

As a water utility, most of the Districts assets and annual expenditures relate to the construction, repair and maintenance of its infrastructure. Repair and replacement of aging infrastructure is one of the most significant challenges facing the District along with other utilities throughout the United States. The District assesses and manages its infrastructure and other capital asset needs through prudent and cost focused planning taking into consideration both current and future water resource availability, consumer peak-demand needs, maximization of the use of existing facilities, consideration for climatic changes, and other such assessments that can be used to sustain service to both current and future consumers. Such planning includes assessing each asset's risk of failure and the consequences to District operations. The assessment of infrastructure asset needs have been thoroughly reviewed and assessed by District engineering staff and outside consultants. For each infrastructure asset group a long-term asset management plan has been developed. Infrastructure plans for all District assets are now in place. Despite such plans having a long-term focus, typically to the end of each asset's useful service life, each plan is reviewed and reassessed biannually. See Note 6 for more detailed information on capital asset activity.

Funding for capital projects comes primarily from District customers via a monthly "Capital Facilities Charge" levied by the District for the payment of capital projects and debt service costs. In addition to customer charges, the District also utilizes state and federal grant funds when available for funding capital projects. In 2015 and 2014, the District received $0.4 million and $-0-, respectively, in grant funds, compared to $1.4 million in 2013. As of December 31, 2015, the District has $3.7 million in financial obligations to contractors on its open construction contracts. See Note 16 for more information.

Long-Term Debt Administration

(Dollars in Thousands)

Changes in long-term debt amounts for 2015 were as follows:

	Balance 2014	Additions	Retirements	Balance 2015
Long-term debt:				
2009A Certificates of participation	$ 42,000	$ -	$ -	$ 42,000
2009B Certificates of participation	27,915	-	(1,870)	26,045
2012A Revenue bond	23,440	-	(1,925)	21,515
Other (1)	10,174	-	(640)	9,534
Total long-term debt	$ 103,529	$ -	$ (4,435)	$ 99,094

Changes in long-term debt amounts for 2014 were as follows:

	Balance 2013	Additions	Retirements	Balance 2014
Long-term debt:				
2009A Certificates of participation	$ 42,000	$ -	$ -	$ 42,000
2009B Certificates of participation	29,700	-	(1,785)	27,915
2012A Revenue bond	25,330	-	(1,890)	23,440
Other (1)	10,808	-	(634)	10,174
Total long-term debt	$ 107,838	$ -	$ (4,309)	$ 103,529

(1) Consists of unamortized long-term debt premiums and an imputed borrowing on an off-market interest rate swap (See Note 8.)

The issuance of long-term debt is a valuable funding resource for the District. Used appropriately and prudently, long-term debt can minimize the District's water system charges and rates over time. The District manages its debt portfolio so as to mitigate risks inherent in debt issuances within an acceptable tolerance level. By managing debt and its repayment, the District is able to reduce various debt-related risk exposures such as market risk, credit risk, renewal risk, basis risk and tax risk, yet still provide the District with financing options to be utilized in future periods if needed. The District considers managing such risks more beneficial than eliminating such risks.

As part of its debt management strategy, the District issues both fixed-rate debt and variable-rate debt. The District does not presently intend to issue additional debt. During 2015, the District renegotiated the terms of its irrevocable direct-pay Letter of Credit (LOC) on the Series 2009A COP that was set to expire on June 2015 with its current LOC provider. The new terms extend the LOC through June 30, 2018 and reduce the annual facility fee by 12.5 basis points. For both 2015 and 2014, the District's credit rating was AA+ and Aa2 as rated by Standard and Poor's Ratings Services, Inc. (S&P) and Moody's Investor Services, Inc. (Moody's), respectively. See Note 8 for more information.

2016 Budget

Annually, the District adopts non-appropriated budgets for planning and control purposes. The budgets are adopted on a cash basis. Budgetary controls are set at the department level. The General Manager has the discretion of reallocating budgeted funds between accounts or projects within each budget with subsequent reporting to the Board of Directors.

The District utilizes two primary budgets to manage its activities. One is an annual Capital Budget (divided into two parts - Intermediate-Term Capital and Long-Term Capital) and the other is an Operations and Maintenance Budget. The Long-Term Capital budget is intended to cover all District infrastructure projects that incorporate significant costs or long lead times and planning to complete. The intermediate-term capital budget is intended to incorporate expenditures for operational capital items, such as vehicles, field equipment, back hoes, and computer equipment. The Operations and Maintenance budget covers all recurring operational costs, such as the purchase and treatment of water, repairs and maintenance, employee salaries and benefits and other such expenditures.

On November 16, 2015, the Board approved an $18.4 million Long-Term Capital budget, a $1.1 million Intermediate-Term Capital budget and an $18.2 million Operations and Maintenance budget for calendar year 2016. Upon adoption of the Long-Term Capital budget, the Board also approved certain capital projects as outlined in the District's asset-management plans developed for each infrastructure asset group.

Conditions Affecting Current Financial Position

California continues to face one of the most severe droughts on record. Although it is not possible to forecast the impact of the drought on District surface water supplies or the effect, if any, on its financial position, the District has adequate groundwater supplies to meet water demands in its service area through 2016 and beyond.

Requests for Information

This report is designed to provide a general overview of the District's finances. Questions concerning information provided in this report or requests for additional financial information should be addressed to:

Finance Director
Sacramento Suburban Water District
3701 Marconi Avenue, Suite 100
Sacramento, CA 95821-5346

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Basic Financial Statements

Sacramento Suburban Water District
Statements of Net Position
December 31, 2015 and 2014

	2015	Restated 2014
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 3,107,757	$ 1,313,305
Restricted cash and cash equivalents (notes 3 and 4)	16,647	32,271
Receivables, net (note 5)	3,309,345	2,241,329
Inventory	484,947	570,864
Prepaids and other current assets	339,374	453,270
Total current assets	7,258,070	4,611,039
Noncurrent assets:		
Investments (note 3)	37,206,113	39,959,090
Restricted investments (notes 3 and 4)	3,495,980	3,497,003
Capital assets not being depreciated (note 6)	10,178,827	9,754,190
Capital assets being depreciated and amortized, net (note 6)	269,642,623	260,901,986
Total noncurrent assets	320,523,543	314,112,269
Total assets	327,781,613	318,723,308
Deferred outflows of resources		
Deferred outflow of effective swap (notes 1 and 8)	765,224	675,593
Deferred amount on long-term debt refundings (note 1)	7,964,338	8,607,462
Deferred outflows from pensions (notes 2 and 13)	546,726	459,672
Total deferred outflows of resources	9,276,288	9,742,727
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	2,845,162	2,404,021
Accrued interest payable	427,131	458,417
Unearned revenue and customer deposits	666,051	677,961
Compensated absences, current portion (note 7)	700,000	600,000
Current portion of long-term debt (note 8)	3,945,000	3,795,000
Total current liabilities	8,583,344	7,935,399
Noncurrent liabilities:		
Compensated absences (note 7)	303,878	321,934
Net pension obligation (notes 2 and 13)	5,722,018	5,061,703
Long-term debt, net of current portion (note 8)	95,148,712	99,733,879
Fair value of interest rate swap (notes 1 and 8)	765,224	675,593
Total noncurrent liabilities	101,939,832	105,793,109
Total liabilities	110,523,176	113,728,508
Deferred inflows of resources		
Deferred inflows from pension (notes 2 and 13)	798,534	1,818,431
Total deferred inflows of resources	798,534	1,818,431
Net position		
Net investment in capital assets (note 9)	188,692,076	175,734,759
Restricted for debt service reserve fund (note 10)	3,523,435	3,540,082
Unrestricted (note 11)	33,520,680	33,644,255
Total net position	$ 225,736,191	$ 212,919,096

See accompanying notes to the basic financial statements

Sacramento Suburban Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
Operating Revenues:		
Water consumption sales	$ 9,644,073	$ 10,826,599
Water service charge	6,401,956	6,306,241
Capital facilities charge	21,646,182	20,677,853
Wheeling water charge	6,368	5,551
Other charges for services	991,840	1,113,269
Total operating revenues	38,690,419	38,929,513
Operating Expenses:		
Source of supply	56,993	66,844
Pumping	5,124,320	4,631,403
Transmission and distribution	3,620,756	3,642,931
Water conservation	772,713	399,323
Customer accounts	1,159,031	1,122,017
Administrative and general	6,120,590	6,099,956
Total operating expenses	16,854,403	15,962,474
Operating income before depreciation and amortization	21,836,016	22,967,039
Depreciation and amortization (note 6)	(11,257,106)	(10,811,542)
Operating income	10,578,910	12,155,497
Nonoperating revenues (expenses):		
Rental revenue	250,293	286,217
Interest and investment revenue	457,731	548,363
Interest expense	(3,633,089)	(3,802,350)
Other non-operating revenues	107,919	86,838
Grant revenue pass-through to subrecipients	369,443	947,563
Other non-operating expenses	(137)	(149)
Subrecipient grant expenses	(369,443)	(947,563)
Gain on disposal of capital assets, net	6,251	20,934
Total nonoperating revenues (expenses), net	(2,811,032)	(2,860,147)
Income before capital contributions	7,767,878	9,295,350
Capital contributions:		
Facility development charges	542,558	560,784
Developer capital contributions	1,203,638	1,893,996
Federal, state and local capital grants	413,879	-
Sale of pumping capacity	2,889,142	-
Total capital contributions	5,049,217	2,454,780
Increase in net position	12,817,095	11,750,130
Net position, as previously reported		208,678,128
Prior period adjustment (note 2)		(7,509,162)
Net position, beginning of year, as restated	212,919,096	201,168,966
Net position, end of year	$ 225,736,191	$ 212,919,096

See accompanying notes to the basic financial statements

Sacramento Suburban Water District
Statements of Cash Flows
For The Years End December 31, 2015 and 2014

	2015	Restated 2014
Cash flows from operating activities:		
Cash receipts from customers	$ 38,434,320	$ 38,818,829
Cash paid to suppliers for goods and services	(11,426,564)	(10,685,853)
Cash paid to employees for services	(5,151,577)	(4,506,403)
Net cash provided by operating activities	21,856,179	23,626,573
Cash flows from non-capital financing activities:		
Other nonoperating receipts	358,074	347,097
Grant receipts	369,443	947,563
Pass-through to sub-recipients	(369,443)	(947,563)
Net cash provided by nonoperating financing activities	358,074	347,097
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(19,218,741)	(20,513,301)
Proceeds from disposal of capital assets	6,251	20,934
Principal payments on long-term debt	(3,795,000)	(3,675,000)
Interest payments on long-term debt	(3,344,699)	(3,498,761)
Principal payments on interest rate swap borrowing payable	(316,718)	(310,234)
Facility development charges received	510,230	99,775
Capital contributions received	209,524	869,232
Sale of pumping capacity	2,315,725	-
Net cash used by capital and related financing activities	(23,633,428)	(27,007,355)
Cash flows from investing activities:		
Purchase of investment securities	(24,123,673)	(27,893,029)
Proceeds from sales and maturities of investment securities	26,947,450	26,305,097
Interest received on investment securities	374,225	521,890
Net cash provided (used) by investing activities	3,198,002	(1,066,042)
Net increase (decrease) in cash and cash equivalents	1,778,828	(4,099,727)
Cash and cash equivalents at beginning of year	1,345,576	5,445,304
Cash and cash equivalents at end of year	$ 3,124,404	$ 1,345,576
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	$ 3,107,757	$ 1,313,305
Restricted cash and cash equivalents	16,647	32,271
Total cash and cash equivalents	$ 3,124,404	$ 1,345,576

Continued on next page

See accompanying notes to the basic financial statements

Sacramento Suburban Water District
Statements of Cash Flows, Continued
For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 10,578,910	$ 12,155,497
Adjustments to reconcile operating revenue to net cash provided by operating activities:		
Depreciation and amortization	11,257,106	10,811,542
Bad debt expense	(85,818)	(58,539)
Change in pension obligation and related deferred inflows (outflows)	(1,106,951)	1,822,940
Changes in operating assets and liabilities		
(Increase) decrease in operating assets:		
Accounts receivable	(189,757)	(51,653)
Other receivables	(941)	49,771
Inventory	85,917	10,821
Prepaids and other current assets	113,897	137,291
Increase (decrease) in operating liabilities:		
Accounts payable	363,096	931,290
Unearned revenue	20,417	(50,263)
Accrued compensated absences	81,943	120,944
Net pension obligation	660,315	(1,854,404)
Accrued expenses	78,045	(398,664)
Total adjustments	11,277,70	11,471,076
Net cash provided by operating activities	$ 21,856,179	$ 23,626,573
Noncash investing, capital and financing transactions:		
Receipt of donated capital assets	$ 1,203,638	$ 1,893,996
Change in fair value of investments	188,147	2,397
Amortization of premium on long-term debt	(323,449)	(323,449)
Amortization of defeasance costs on long-term debt	643,124	643,124
Change in fair value of interest rate swap	(89,631)	(3,240,263)

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting principles are described below.

A. Reporting Entity

The Sacramento Suburban Water District (District) provides water to residential, commercial and industrial customers with a total population of approximately 174,434 people within its boundaries. The water supply of the District is a combination of both surface water and groundwater. The District was formed on February 1, 2002 under the County Water District Law (California Water Code Sections 30000-33901) by the consolidation of the Northridge Water District and the Arcade Water District. The consolidation was approved and ordered by the Sacramento County Local District Formation Commission under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (California Government Code Sections 56000-57550). The District is located in northwest Sacramento County, California and includes a portion of the unincorporated area of Sacramento County, as well as portions of Antelope, Carmichael, Citrus Heights, Foothill Farms, North Highlands, the City of Sacramento, and all of McClellan Business Park (formerly McClellan Air Force Base). The District is currently governed by a five member Board of Directors elected by the voters within the District for staggered four year terms, every two years.

B. Component Unit

The Sacramento Suburban Water District Financing Corporation (Corporation), formerly known as the Arcade Water District Financing Corporation, was created to provide assistance in the issuance of debt. The Corporation is a nonprofit public benefit Corporation organized under the laws of the State of California. The Corporation is governed by a five member Board of Directors, each of whom must be a member of the District's Board of Director's. Although legally separate from the District, the Corporation is reported as a "blended" component unit of the District, because it shares a common Board of Directors with the District, and its sole purpose is to provide financing to the District. Debt issued by the Corporation is reflected as debt of the District in the basic financial statements. The Corporation has no other transactions and does not issue separate financial statements.

C. Jointly Governed Organization

The District is a signatory to the Regional Water Authority's (RWA) Joint Powers Agreement. The RWA was formed to address regional water issues with a mission to serve and represent the regional water supply interests of its 20 members in protecting and enhancing the reliability, availability, affordability and quality of water resources. RWA does not possess nor exercise governing or regulatory authority over its members. The District does not have an ongoing financial responsibility to RWA. The financial transactions between the District and RWA during the years ending December 31, 2015 and 2014, primarily involved the payment of annual membership dues and grant administration expenses, which were not material to the District's financial statements. Copies of RWA's annual financial reports and other pertinent information may be obtained from their office at 5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610, from their website at www.rwah2o.org, or by calling (916) 967-7692.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Basis of Accounting and Principles of Presentation

The District is accounted for as an enterprise fund type of the proprietary fund group and therefore accounts for its operations in a manner similar to a private enterprise since it is the intent of the District to recover its cost of providing goods and services to the public on a continuing basis primarily through user charges.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred regardless of the timing of related cash flows.

The principal operating revenues of the District are charges to customers for water sales and services. Operating expenses include the cost to purchase, pump, treat and deliver water, administrative expenses and depreciation on capital assets. The District distinguishes operating revenues and expenses from non-operating revenues and expenses based on the relationship of the revenue or expense to the production and delivery of water.

Preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported changes in net position during the reporting period. Actual results may differ from those estimates.

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Unrestricted and Restricted Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, the District considers all short-term debt securities (including those for restricted assets) purchased with an original maturity of three months or less at the date of purchase to be cash and cash equivalents. The District also invests funds with the Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, these funds are classified as a cash equivalent.

2. Receivables and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District goes through various steps to collect on the account. If uncollectible, the District adjusts its uncollectible accounts using the allowance method.

3. Inventory

Inventory consists primarily of water meters, pipe, valves and pipe-fittings for construction and repair of the District's water transmission and distribution system. Inventory is valued at cost using a first-in, first-out method. Inventory items are charged to expense at the time individual items are withdrawn from inventory or consumed.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

4. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid current assets in the basic financial statements.

5. Investments and Investment Policy

In 2002, the District adopted an investment policy directing the District Treasurer/Finance Director to invest funds in various types of financial instruments. Investments are reported in the accompanying Statements of Net Position at fair value determined using closing market prices as of the last business day of the year as supplied by Interactive Data, Bloomberg or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value. Changes in fair value that occur during the year are recognized as Interest and Investment revenue reported for that year. Interest and Investment revenue includes interest earnings, unrealized changes in fair value, and any gains or losses realized upon the liquidation or maturity of investments.

6. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of more than $3,000 for water system infrastructure assets, $500 for office furniture and computer and communication equipment, and $1,000 for all other assets. As more fully explained under the caption "Interest Expense and Income Capitalized," net interest expense incurred during the construction phase of capital assets is included as part of the capitalized value of the constructed assets. Costs of capital assets sold or retired (and the related amounts of accumulated depreciation or amortization) are eliminated from the Statements of Net Position in the year of sale or retirement, and the resulting gain or loss is recognized in non-operating revenues (expenses). In cases where an improvement or replacement is made to an existing capital asset and the existing capital asset's book value is not separately identifiable, the cost of the new capital asset is fully capitalized as it is assumed the existing capital asset's book value is negligible. Depreciation/amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Pipelines, Reservoirs, and Pumping Stations — 10 to 80 years
- Building and Building Improvements — 10 to 40 years
- Vehicles and Equipment — 5 to 10 years
- Furniture and Fixtures — 4 to 7 years
- Construction-In-Progress — None until placed in service

Intangible assets consist primarily of donated permanent property easements and purchased pipeline capacity in a transmission pipeline owned and operated by San Juan Water District, Granite Bay, California.

7. Interest Expense and Income Capitalization

The District capitalizes interest expense as a component of the cost of construction in progress and offsets capitalized interest cost with interest income related to unspent bond proceeds. No interest cost or interest income was capitalized in the years ended December 31, 2015 or 2014.

1) Reporting Entity and Summary of Significant Accounting Policies, continued

8. Deferred Outflows of Resources – Effective Interest Rate Swap

The District entered into an interest rate swap agreement (swap) to manage interest rate risk and reduce debt service costs on variable-rate debt originally issued simultaneous with the swap. The swap is reported in the accompanying Statements of Net Position at fair value as of December 31, 2015 and 2014, determined using the zero-coupon measurement method, which calculates the future net settlement payments based on current forward rates implied by the yield curve. Using the synthetic instrument method, the swap has been determined to serve as an effective cash flow hedge of the District's variable-rate COP obligations.

9. Deferred Outflows of Resources - Long-Term Debt Refundings

Unamortized gains and losses resulting from advance debt refundings are classified as deferred outflows of resources.

10. Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statements of Net Position. The District's policy provides vacation leave to employees at a rate of 12 days up to 25 days per year based on the number of years of employment and is considered earned on a pro-rata basis as of each payroll period throughout the year. Earned vacation leave is paid to employees upon separation from the District. Employees under age 55 are paid once a year for all earned vacation leave exceeding 400 hours at their current hourly rate of pay. Based upon meeting certain criteria, employees may be paid for earned vacation leave at any time. Sick leave accrues at the rate of 96 hours per year and is considered earned on a pro-rata basis as of each payroll period throughout the year. Earned sick leave is paid to employees who are age 55 and older upon retirement at their current hourly rate of pay or may be contributed to the District's deferred compensation plan (See Note 12) or the California Public Employee Retirement System (CalPERS) defined benefit pension plan provided by the District for additional service credit (See Note 13). Employees under age 55 are paid once a year for all earned sick leave exceeding 240 hours at one-half of their current hourly rate of pay (See Note 7).

11. Long-Term Debt Discounts and Premiums

Long-term debt discounts and premiums are deferred and amortized over the life of the related debt using the straight-line method. Long-term debt is reported net of the applicable discounts or premiums.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

13. Net Position

GASB 63 requires that net position be reported as the difference between assets, plus deferred outflows of resources, less liabilities and less deferred inflows of resources. Net position is to be further classified into three components: net investment in capital assets, restricted, and unrestricted. In addition, the impact of deferred outflows or inflows of resources on net position must be explained.

- **Net Investment in Capital Assets** – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of long-term debt and deferred amounts related to debt refunding used to acquire such assets. These investments are considered non-expendable.

- **Restricted for Debt Service Reserve Fund** – This component consists of external legal constraints placed on District assets by long-term debt holders.

- **Unrestricted** – This component of net position consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not meet the definition of "net investment in capital assets" or "restricted for debt service reserve fund." Amounts included as unrestricted are available for designation for specific purposes as established by the District's Board of Directors. When an expense is incurred for which both restricted and unrestricted net position are available for use, it is the District's policy to use restricted resources first then unrestricted resources as they are needed.

- **Effect on Unrestricted Net Position from Deferred Outflow of Resources** – The unrestricted net position amount of $33,520,680 and $33,644,255 at December 31, 2015 and 2014, respectively, includes the effect of deferring the recognition of losses from long-term debt refundings, the decline in market value of the District's swap and the net pension liability. The deferred outflows from losses on long-term debt refundings at December 31, 2015 and 2014, were $7,964,338 and $8,607,462, respectively, and are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

  The deferred outflows of resources related to the fair market value of the swap of $765,224 and $675,593 at December 31, 2015 and 2014, respectively, would be recognized as an investment loss upon early termination of the swap. The District will only terminate its swap in advance of the contractual termination dates if market conditions permit. The deferred outflow would be recognized as an investment loss if the swap was determined to no longer be an effective hedge. Further, if the debt associated with the swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the life of the new debt, whichever is shorter.

  The deferred outflows of resources related to net pension liabilities of $546,726 and $459,672 at December 31, 2015 and 2014, will be amortized and recognized as pension expense over periods of five years or less.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

F. Revenues

1. Water Consumption Sales, Service Charges and Capital Facility Charges (Water Sales)

The District's principal source of income is from water sales. Water rates are established by the Board of Directors and are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. Water sales to District customers are billed on a monthly basis. Invoices for customers who pay on a set basis are billed in advance, while customers who pay based on a consumption basis are billed in arrears. Consumption amounts are determined on a weekly basis throughout a monthly period. Estimated unbilled water sales revenue for consumption are accrued and recorded in the period the water was used. Capital facility charges are applied to all District customers based on their respective service size connection. Such charges are for the purpose of generating revenue for capital asset projects and debt service payments. Wheeling charges are revenues received from neighboring water purveyors who utilize the District's transmission and distribution system. Other charges for services consist of customer related revenues for various services provided by the District including penalty charges. All other revenues are considered non-operating revenues, which comprise primarily investment and grant revenues.

2. Capital Contributions

Capital contributions represent cash, easements, and capital assets contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment, and federal and state grant proceeds for certain capital projects and water conservation awareness programs.

G. Budgetary Policies

The District does not operate under any legal budgeting requirement. However, the District adopts an annual non-appropriated operating expense budget and two capital project budgets for planning, control, and evaluation purposes. The budgets are prepared on a cash basis. Budgetary control is maintained at various levels within the District and evaluation is effectuated by comparisons of actual operating expenses and capital project costs with budgeted operating expenses and capital project costs during the year. As required by certain debt covenants, the annual operating budget is also evaluated, along with anticipated revenues, such that net revenues, as defined by the various debt covenants, are equal to or exceed a minimum of 115 percent of the anticipated debt service for the budget year.

H. Future Accounting Pronouncements

GASB has issued the following statements which may impact the District's financial reporting requirements in the future. The District is currently analyzing the impact of implementing these new statements.

In February 2015, the GASB approved Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurements and will require additional disclosures about assets and liabilities measured at fair value. This Statement is effective for the year ending December 31, 2017.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* (GASB 75), replaces the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for the year ending December 31, 2019.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). GASB 79 addresses accounting and financial reporting for certain external pools and pool participants and establishes criteria for an external pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for the year ending December 31, 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* (GASB 82). GASB 82 addresses certain issues that have been raised with respect to GASB 67, GASB 68 and GASB 73 regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for the year ending December 31, 2017.

I. Reclassification

Certain amounts reported in 2014 have been reclassified to conform to the 2015 presentation.

(2) Change in Accounting Principles and Restatement

During the year ended December 31, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71). These Statements required the District to recognize in its accrual basis financial statements the proportional share of the net pension liability, deferred outflows of resources and deferred inflows of resources for the District's cost-sharing pension plan. These Statements also required contributions made after the June 30, 2015 measurement date used in the actuarial valuations for the pension plans to be reported as deferred outflows of resources.

By implementing these Statements, deferred outflows of resources of $459,672, pension liabilities of $5,061,703 and deferred inflows of resources of $1,818,431 were recorded in the District's financial statements as of December 31, 2014. Operating expenses in 2014 were reduced and net position was

(2) Change in Accounting Principles and Restatement, continued

increased by $31,464 as a result of this restatement. Total net position as of January 1, 2014 was restated compared to the amounts reported in the December 31, 2014 financial statements, resulting in a decrease of $6,451,926.

When capital assets are replaced the District's capital asset policy states that if the replaced capital asset cannot be separately identified in the financial records that the cost of the new capital asset should be fully capitalized as it is assumed the existing capital asset's book value is negligible. During 2015, certain capital assets that had been replaced in periods prior to 2014 were identified in the District's financial records. As a result, capital assets not being depreciated were reduced by $14,102, capital assets being depreciated and amortized were reduced by $968,266, depreciation expense for 2014 was decreased and net position was increased by $74,868 and total net position as of January 1, 2014 was decreased by $1,057,236 as a result of this correction.

(3) Cash, Cash Equivalents and Investments

As a public agency, the District's investment practices are prescribed by various provisions of the California Government Code, as well as by Board policy. The District's investment policy is reviewed at least biennially by the Board of Directors and describes the Finance Director/District Treasurer's investment authority, practices, and limitations. The basic investment policy objectives of the District, in order of importance are - safety of principal, liquidity, interest rate risk hedging, and return on investments.

Cash and investments as of December 31, 2015 and 2014 are classified in the Statements of Net Position as follows:

	2015	2014
Cash and cash equivalents	$ 3,107,757	$ 1,313,305
Restricted cash and cash equivalents	16,647	32,271
Investments	37,206,113	39,959,090
Restricted investments	3,495,980	3,497,003
Total	$ 43,826,497	$ 44,801,669

Restricted cash and cash equivalents and investments are amounts established by Trust Agreements per certain long-term debt covenants. See Note 4 for further details.

(3) Cash, Cash Equivalents and Investments, continued

Cash, cash equivalents and investments as of December 31, 2015 and 2014 by investment type are as follows:

	2015	2014
Cash on hand	$ 4,250	$ 3,050
Deposits with financial institutions	916,445	386,822
Total cash	920,695	389,872
California Local Agency Investment Fund (LAIF)	2,143,849	842,165
Money market mutual funds	43,213	81,268
Held by bond trustee:		
Restricted money market mutual funds	16,647	32,271
Total cash equivalents	2,203,709	955,704
Negotiable certificates of deposit	8,002,514	5,769,935
U.S. treasury notes/bonds	7,271,662	8,191,763
Federal agency securities	4,316,969	12,049,995
Municipal obligations	2,751,745	2,021,286
Corporate notes	11,136,924	11,926,111
Mortgage backed and asset backed securities	3,726,299	-
Held by bond trustee:		
Restricted Federal agency securities	3,495,980	3,497,003
Total investments	40,702,093	43,456,093
Total	$ 43,826,497	$ 44,801,669

(3) Cash, Cash Equivalents and Investments, continued

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

The table below identifies the investment types that are authorized in accordance with 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 credit risk.

Authorized Investment Type	Maximum Maturity(1)	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. treasury notes/bonds	5 years	None	None
Federal agency securities	5 years	None	None
Municipal Obligations	5 years	None	None
Repurchase agreements	1 year	50%	None
Bankers acceptances	180 days	40%	5%
Commercial paper (2)	270 days	25%	5%
Negotiable certificates of deposit	5 years	30%	5%
Medium-term notes	5 years	30%	5%
Time deposits	1 year	None	None
Money market mutual funds	N/A	20%	10%
Local Government Investment Pools	N/A	None	None
Mortgage backed and asset backed securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	(3)	None
Supranationals	5 years	15%	None

(1) The California Government Code provides authority to the Board to permit maturities beyond 5 years for certain investments. Current Board policy provides for maturities longer than 5 years for funds established by Indentures of Trust.
(2) Limited to funds invested in California Government Code authorized instruments.
(3) Effective January 1, 2016, California Government Code limits the District's investment for operating and reserve funds in LAIF to $65 million. There is no ceiling on bond proceeds invested in LAIF.

Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees under the terms of certain long-term debt issuances. These funds are pledged reserves to be used if the District fails to meet its obligations under these debt issues. Investments of debt proceeds held in trust are governed by provisions of the debt agreements and California Government Code and not the District's investment policy.

Investment in LAIF

The District is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, with the Treasurer of the State of California serving as chairman. The fair value of the District's investment in this pool is reported in the Statements of Net Position as a cash equivalent based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available

(3) Cash, Cash Equivalents and Investments, continued

for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The District's investment in LAIF at December 31, 2015 and 2014 was $2,143,849 and $842,165, respectively. The total fair value of all public agencies invested in LAIF at December 31, 2015 and 2014 was $20,287,338,877 and $19,493,012,136, respectively.

Cash equivalents and investments contain certain risks. The District has implemented various provisions to address the following risks: interest rate risk, credit risk, concentration of credit risk, and custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates on investments with or without embedded options will adversely affect the fair value of an investment. The District generally manages this risk by holding investments to maturity or by adjusting the effective duration (a calculation for fixed-income instruments with an embedded option when the value is calculated to include the expected change in cash flows caused by the option as interest rates change. Effective duration measures the responsiveness of a bond's price to interest rate changes, and illustrates the fact that the embedded option will also affect the bond's price) of the investment portfolio against a nationally recognized benchmark index that most closely relates to the District's investment objectives. The District selected the "Bank of America Merrill Lynch 0-5 Year U.S. Treasury Index" as its benchmark index. The District's duration targets are reviewed quarterly and, dependent on the evaluation of various markets and non-market factors (such as cash-flow needs of the District), a duration goal is set. As of December 31, 2015 and 2014, the effective duration of the "Bank of America Merrill Lynch 0-5 Year U.S. Treasury Index" was 2.14 and 2.17, respectively.

Weighted-average effective duration of cash equivalents were as follows:

	December 31, 2015		December 31, 2014	
Cash Equivalent Type	**Fair Value**	**Duration**	**Fair Value**	**Duration**
LAIF	$ 2,143,849	0.49	$ 842,165	0.56
Money market mutual funds	59,860	-	113,539	-
Weighted average duration	$ 2,203,709	0.48	$ 955,704	0.49

Weighted-average effective duration on investments were as follows:

	December 31, 2015		December 31, 2014	
Investment Type	**Fair Value**	**Duration**	**Fair Value**	**Duration**
Negotiable certificates of deposit	$ 8,002,514	1.16	$ 5,769,935	0.64
U.S. treasury notes/bonds	7,271,662	3.07	8,191,763	1.84
Federal agency securities	7,812,949	1.78	15,546,998	2.31
Municipal obligations	2,751,745	1.53	2,021,286	2.60
Corporate notes	11,136,924	2.58	11,926,111	2.58
Mortgage backed and asset backed securities	3,726,299	1.39	-	-
Weighted average duration	$40,702,093	2.05	$ 43,456,093	2.09

(3) Cash, Cash Equivalents and Investments, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District manages such risk by purchasing investments with nationally recognized credit ratings that meet or exceed District credit rating requirements at the time of purchase. Credit ratings utilized are those provided by Standard and Poor's or Moody's Ratings Services, where applicable. Additionally, regular monitoring of the credit ratings of purchased securities held in the portfolio is performed to evaluate individual securities for potential sale.

Cash equivalents credit ratings as of December 31, 2015, were as follows:

Cash Equivalent Type		Minimum Legal Rating	Ratings as of Year-End		
			Not Rated	AAA/AA	AA-/A-1
LAIF	$ 2,143,849	-	$ 2,143,849	$ -	$ -
Money market mutual funds	59,860	-	-	59,859	-
Total cash equivalents	$ 2,203,709	-	$ 2,143,849	$ 59,859	$ -

Investment credit ratings as of December 31, 2015 were as follows:

Investment Type		Minimum Legal Rating	Not Rated	Ratings as of Year-End		
				AAA	AA+/AA-	A+/A-1/A3
Negotiable certificates of deposit	$ 8,002,514	A	$ -	$ -	$ 1,618,567	$6,383,947
U.S. treasury notes/bonds	7,271,662	-	-	-	7,271,662	-
Federal agency securities	7,812,949	-	-	-	7,812,949	-
Municipal obligations	2,751,745	-	216,051	-	2,535,694	-
Corporate notes	11,136,924	A		798,729	4,007,121	6,331,074
Mortgage backed and asset backed securities	3,726,299	A	685,341	1,685,152	1,355,806	-
Total investments	$40,702,093	-	$901,392	$2,483,881	$24,601,799	$12,715,021

Cash equivalents credit ratings as of December 31, 2014, were as follows:

Cash Equivalent Type		Minimum Legal Rating	Ratings as of Year-End		
			Not Rated	AAA/AA	AA-/A-1
LAIF	$ 842,165	-	$ 842,165	$ -	$ -
Money market mutual funds	113,539	-	-	113,539	-
Total cash equivalents	$ 955,704	-	$ 842,165	$ 113,539	$ -

(3) Cash, Cash Equivalents and Investments, continued

Investment credit ratings as of December 31, 2014, were as follows:

Investment Type		Minimum Legal Rating	Ratings as of Year-End AAA	AA+/AA-	A+/A-1/A3
Negotiable certificates of deposit	$ 5,769,935	A	$ -	$ -	$ 5,769,935
U.S. treasury notes/bonds	8,191,763	-	-	8,191,763	-
Federal agency securities	15,546,998	-	-	15,546,998	-
Municipal bonds	2,021,286	-	-	703,222	1,318,064
Corporate notes	11,926,111	A	256,708	5,488,212	6,181,191
Total investments	$ 43,456,093	-	$ 256,708	$ 29,930,195	$13,269,190

Concentration of Credit Risk

At December 31, 2015 and 2014, the District had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

Issuer	Investment Type	2015		2014	
Federal National Mortgage Association	Federal agency securities	$ 7,009,234	17.21%	$ 7,458,014	17.16%
Federal Home Loan Mortgage	Federal agency securities	$ 2,159,522	5.31%	$ 4,206,973	9.68%
Federal Home Loan Bank	Federal agency securities	-	-	$ 3,882,011	8.93%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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. As of December 31, 2015 and 2014, $1,781,255 and $2,499,623, respectively, of the District's deposits were in excess of federal depository insurance (FDIC) limit of $250,000. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District 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 exposure to custodial credit risk for deposits or investments, other than the following provision: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

(4) Restricted Cash, Cash Equivalents and Investments

Restricted cash and cash equivalents are amounts established by debt covenants on certain long-term debt issuances.

Restricted cash and cash equivalents as of December 31 were as follows:

	2015	2014
2009A Certificates of participation reserve fund	$ 1	$ -
2009B Certificates of participation reserve fund	16,641	32,257
2012A Revenue bond interest payment fund	5	14
Total	$ 16,647	$ 32,271

Restricted investments as of December 31 were as follows:

	2015	2014
2009B Certificates of participation reserve fund	$ 3,495,980	$ 3,497,003

(5) Receivables, Net and Restricted Receivable

Receivables as of December 31 consist of the following:

	2015	2014
Water sales and services receivable	$ 2,462,281	$ 2,272,525
Allowance for doubtful accounts	(158,794)	(244,612)
Accrued interest receivable	119,499	105,770
Accrued interest receivable on restricted investments	10,808	10,808
Receivable from OPEB trust	63,808	62,868
Receivable from San Juan Water District	573,417	-
Grant receivable	238,325	33,970
Total	$ 3,309,345	$ 2,241,329

(6) Capital Assets

Changes in capital assets for the year ended December 31, 2015, were as follows:

	Restated Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Non-depreciable assets:				
Land	$ 1,669,713	$ -	$ -	$ 1,669,713
Permanent easements	2,554,642	614,343	-	3,168,985
Construction-in-progress	5,529,835	18,553,563	(18,743,269)	5,340,129
Total non-depreciable assets	9,754,190	19,167,906	(18,743,269)	10,178,827
Depreciable and amortizable assets:				
Land improvements	1,036,009	-	-	1,036,009
Pumping and wells	67,224,870	5,099,416	-	72,324,286
Hydrants, PRV stations, valves	125,480,916	4,531,947	-	130,012,863
Purchased trans & dist pipelines	146,011,320	7,488,376	-	153,499,696
Capacity entitlement	5,282,728	-	-	5,282,728
Storage facilities – reservoirs	13,673,880	-	-	13,673,880
Water meters	28,080,623	2,197,134	-	30,277,757
Buildings	2,690,040	-	-	2,690,040
Buildings improvements	3,335,317	239,056	-	3,574,373
Machinery and equipment	773,062	12,325	(12,737)	772,650
Fleet equipment	1,409,430	99,729	(16,011)	1,493,148
Office equipment	368,662	75,255	-	443,917
Computer software	2,509,624	63,511	-	2,573,135
Computer hardware & equipment	873,221	190,993	-	1,064,214
Total depreciable & amort. Assets	398,749,702	19,997,742	(28,748)	418,718,696
Accumulated depreciation and amortization:				
Land improvements	(790,291)	(26,245)	-	(816,536)
Pumping and wells	(29,898,213)	(2,452,629)	-	(32,350,842)
Hydrants, PRV stations, valves	(60,532,923)	(3,703,227)	-	(64,236,150)
Purchased trans & dist pipelines	(17,127,903)	(1,824,759)	-	(18,952,662)
Capacity entitlement	(2,952,025)	(174,194)	-	(3,126,219)
Storage facilities – reservoirs	(3,260,582)	(340,010)	-	(3,600,592)
Water meters	(14,641,550)	(2,193,058)	-	(16,834,608)
Buildings	(1,243,818)	(66,762)	-	(1,310,580)
Buildings improvements	(2,592,956)	(111,185)	-	(2,704,141)
Machinery and equipment	(608,240)	(59,367)	12,737	(654,870)
Fleet equipment	(1,292,112)	(44,151)	16,011	(1,320,252)
Office equipment	(321,588)	(14,983)	-	(336,571)
Computer software	(1,965,651)	(156,606)	-	(2,122,257)
Computer hardware & equipment	(619,864)	(89,929)	-	(709,793)
Total accumulated depr. & amort.	(137,847,716)	(11,257,105)	28,748	(149,076,073)
Total depr. & amort. assets, net	260,901,986	8,740,637	-	269,642,623
Total capital assets, net	$ 270,656,176	$ 27,908,543	$ (18,743,269)	$ 279,821,450

(6) Capital Assets, continued

Changes in capital assets for the year ended December 31, 2014, were as follows:

	Restated Balance 2013	Restated Additions/ Transfers	Deletions/ Transfers	Restated Balance 2014
Non-depreciable assets:				
Land	$ 1,623,713	$ 46,000	$ -	$ 1,669,713
Permanent easements	2,091,212	463,430	-	2,554,642
Construction-in-progress	2,307,455	20,170,750	(16,948,370)	5,529,835
Total non-depreciable assets	6,022,380	20,680,180	(16,948,370)	9,754,190
Depreciable and amortizable assets:				
Land improvements	1,036,009	-	-	1,036,009
Pumping and wells	66,723,445	501,425	-	67,224,870
Hydrants, PRV stations, valves	121,162,406	4,318,510	-	125,480,916
Purchased trans & dist pipelines	135,468,904	10,542,416	-	146,011,320
Capacity entitlement	5,282,728	-	-	5,282,728
Storage facilities – reservoirs	13,673,880	-	-	13,673,880
Water meters	25,497,850	2,582,773	-	28,080,623
Buildings	2,690,040	-	-	2,690,040
Buildings improvements	3,281,878	53,439	-	3,335,317
Machinery and equipment	753,748	44,932	(25,618)	773,062
Fleet equipment	1,473,233	-	(63,803)	1,409,430
Office equipment	365,264	3,398	-	368,662
Computer software	2,021,882	487,742	-	2,509,624
Computer hardware & equipment	732,368	140,853	-	873,221
Total depreciable & amort. assets	380,163,635	18,675,488	(89,421)	398,749,702
Accumulated depreciation and amortization:				
Land improvements	(759,445)	(30,846)	-	(790,291)
Pumping and wells	(27,451,718)	(2,446,495)	-	(29,898,213)
Hydrants, PRV stations, valves	(56,930,889)	(3,602,034)	-	(60,532,923)
Purchased trans & dist pipelines	(15,433,546)	(1,694,357)	-	(17,127,903)
Capacity entitlement	(2,777,830)	(174,195)	-	(2,952,025)
Storage facilities – reservoirs	(2,920,572)	(340,010)	-	(3,260,582)
Water meters	(12,600,542)	(2,041,008)	-	(14,641,550)
Buildings	(1,177,056)	(66,762)	-	(1,243,818)
Buildings improvements	(2,480,805)	(112,151)	-	(2,592,956)
Machinery and equipment	(572,260)	(61,598)	25,618	(608,240)
Fleet equipment	(1,293,961)	(61,954)	63,803	(1,292,112)
Office equipment	(298,365)	(23,223)	-	(321,588)
Computer software	(1,904,914)	(60,737)	-	(1,965,651)
Computer hardware & equipment	(523,691)	(96,173)	-	(619,864)
Total accumulated depr. & amort.	(127,125,594)	(10,811,543)	89,421	(137,847,716)
Total depr. & amort. assets, net	253,038,041	7,863,945	-	260,901,986
Total capital assets, net	$ 259,060,421	$ 28,544,125	$ (16,948,370)	$ 270,656,176

(6) Capital Assets, continued

Major capital asset additions during 2015 and 2014 include construction and major upgrades to the transmission and distribution system, fire hydrants, valves, PRV stations, water meters, and wells. A significant portion of these additions were constructed by the District and transferred out of construction-in-progress upon completion of these various projects.

Construction-In-Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at December 31 are as follows:

	2015	2014
Rutland well construction	$ 832,282	$ 324,529
Well rehabilitation/pump improvements	825,286	1,182,064
Meter retrofit project	808,147	-
SCADA RTU panels improvements	422,682	880,645
Watt Avenue Magpie Creek extension	421,092	-
Elevated tank hydraulic improvement	227,886	-
North Country Club Estates – phase 4	-	963,254
Heatherdale main extension	-	388,756
McKinney way main extension	-	200,211
Various other distribution main replacements	1,496,004	1,416,832
Various other minor projects	306,750	173,544
Construction-in-progress	$ 5,340,129	$ 5,529,835

There was no impairment of District assets as defined by GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" as of December 31, 2015 and 2014.

(7) Compensated Absences

Compensated absences are comprised of unpaid vacation and sick leave, which is accrued as earned, and accumulated unpaid overtime. The District's liability for compensated absences is determined annually. The current portion of the compensated absences is estimated based on amounts used in the current year.

The changes to compensated absences balances at December 31 are as follows:

Balance 2014	Earned	Taken	Balance 2015	Due Within One Year
$ 921,934	$ 747,403	$ (665,459)	$ 1,003,878	$ 700,000

Balance 2013	Earned	Taken	Balance 2014	Due Within One Year
$ 800,990	$ 709,123	$ (588,179)	$ 921,934	$ 600,000

(8) Long-Term Debt

Description of the District's Long-Term Debt

The District's long-term debt consists of Refunding Revenue Certificates of Participation (COP obligations) and Refunding Revenue Bonds (bonds) issued for the purpose of refunding debt originally issued to fund portions of the District's capital improvement program (CIP). The COP obligations and bonds are secured by a pledge of the District's net revenues. Such COP obligations and bonds contain certain restrictive covenants, with which the District has complied. All COP obligations and bonds contain call provisions. COP obligations and bonds maturing after the earliest applicable call date are subject to optional, mandatory or extraordinary redemption prior to maturity, without premium.

Long-term debt activities for the year ended December 31, 2015, are as follows:

	Balance 2014	Additions	Retirements	Balance 2015	Current Portion
2009A Certificates of participation	$ 42,000,000	$ -	$ -	$ 42,000,000	$ -
2009B Certificates of participation	27,915,000	-	(1,870,000)	26,045,000	1,950,000
2012A Revenue bond	23,440,000	-	(1,925,000)	21,515,000	1,995,000
Total principal	93,355,000	-	(3,795,000)	89,560,000	$3,945,000
Unamortized bond premium	4,234,709	-	(323,449)	3,911,260	
Imputed borrowing - off-market swap	5,939,170	-	(316,718)	5,622,452	
Total long-term debt	$103,528,879	$ -	$ (4,435,167)	$ 99,093,712	

Long-term debt activities for the year ended December 31, 2014, are as follows:

	Balance 2013	Additions	Retirements	Balance 2014	Current Portion
2009A Certificates of participation	$ 42,000,000	$ -	$ -	$ 42,000,000	$ -
2009B Certificates of participation	29,700,000	-	(1,785,000)	27,915,000	1,870,000
2012A Revenue bond	25,330,000	-	(1,890,000)	23,440,000	1,925,000
Total principal	97,030,000	-	(3,675,000)	93,355,000	$3,795,000
Unamortized bond premium	4,558,158	-	(323,449)	4,234,709	
Imputed borrowing - off-market swap	6,249,404	-	(310,234)	5,939,170	
Total long-term debt	$107,837,562	$ -	$(4,308,683)	$103,528,879	

(8) Long-Term Debt, continued

The future debt service schedule of all long-term debt as of December 31, 2015, is as follows:

Year	Principal	Interest [(1)]	Total
2016	$ 3,945,000	$ 3,426,071	$ 7,371,071
2017	4,060,000	3,264,121	7,324,121
2018	4,240,000	3,080,047	7,320,047
2019	4,390,000	2,892,467	7,282,467
2020	4,595,000	2,714,698	7,309,698
2021-2025	21,015,000	10,374,979	31,389,979
2026-2030	25,790,000	5,620,496	31,410,496
2031-2034	21,525,000	1,476,561	23,001,561
Total	89,560,000	$ 32,849,440	$122,409,440
Less current portion	(3,945,000)		
Unamortized bond premium	3,911,260		
Imputed borrowing on off-market swap	5,622,452		
Total non-current long-term debt	$ 95,148,712		

(1) Includes – 1) fixed-rate interest at scheduled payments, 2) variable-rate interest at an estimated rate of 0.585 percent as of December 31, 2015 (includes market rate plus facility and remarketing fees), and 3) swap payments based on a 3.283 percent fixed-rate per the amended and restated Swap Confirmation dated April 11, 2012, less the variable receive rate of 0.391 percent as of December 31, 2015.

2009 Series A COP

In June 2009, the District issued a $42,000,000 COP obligation, Series 2009A at a variable interest rate, to current refund the $41,275,000 COP obligation, Series 2004. The variable interest rate resets weekly. This COP obligation was issued with an irrevocable direct-pay letter-of-credit (LOC) which currently expires on June 30, 2018. This term debt's maturity is November 1, 2034 and is subject to optional, mandatory and extraordinary sinking fund prepayment and optional and mandatory tender redemption provisions, without premium. As discussed more fully under the caption "Interest Rate Swap" below, subsequent to its issuance, a swap was issued to hedge this COP obligation which itself was amended and restructured in 2012 to proportionately match the terms of this COP obligation. The swap has been determined to serve as an effective cash flow hedge in accordance with the provisions of GASB No. 53 as amended by GASB 59 and 64, even though the swap terms do not completely match those of this COP obligation.

(8) Long-Term Debt, continued

As of December 31, 2015, the future debt service schedule of the 2009 Series A COP obligation and associated swap payments are as follows:

	2009 Series A COP		Interest Rate (1)	
Year	**Principal**	**Interest (2)**	**Swap, Net**	**Total**
2016	$ -	$ 245,700	$ 962,946	$ 1,208,646
2017	-	245,700	962,946	1,208,646
2018	-	245,700	962,946	1,208,646
2019	-	245,700	962,946	1,208,646
2020	-	245,700	962,946	1,208,646
2021-2025	3,685,000	1,204,227	4,719,545	9,608,772
2026-2030	16,790,000	968,507	3,796,311	21,554,818
2031-2034	21,525,000	300,061	1,176,500	23,001,561
Total	42,000,000	$ 3,701,295	$ 14,507,086	$ 60,208,381
Less current portion	-			
Imputed borrowing- off-market swap	5,622,452			
Total non-current COP obligation	$ 47,622,452			

(1) Based on a 3.283 percent fixed-rate per the amended and restated Swap Confirmation dated April 11, 2012, less the variable receive rate of 0.391 percent as of December 31, 2015.

(2) Estimated at an assumed rate of 0.585 percent as of December 31, 2015 (includes market rate plus facility and remarketing fees).

2009 Series B COP

In June 2009, the District issued a $36,155,000 COP obligation, Series 2009B at a true interest cost of 4.54 percent, to current refund the $36,725,000 Series 2008A-1 COP obligation. This serial debt's maturity extends to November 1, 2028 and is subject to optional and extraordinary redemption provisions, without premium. The Debt Service Reserve Fund obligation on this COP obligation is $3,517,500. As of December 31, 2015 and 2014, the fair market value of permitted investments in the reserve fund, including accrued interest, was $3,523,430 and $3,540,068, respectively, while the amortized cost was $3,530,026 and $3,557,190, respectively.

(8) Long-Term Debt, continued

As of December 31, 2015, the future debt service schedule of the 2009 Series B COP obligation is as follows:

Year	Principal	Interest	Total
2016	$ 1,950,000	$ 1,307,500	$ 3,257,500
2017	2,030,000	1,225,583	3,255,583
2018	2,135,000	1,123,209	3,258,209
2019	2,230,000	1,016,596	3,246,596
2020	2,360,000	908,658	3,268,658
2021-2025	9,005,000	2,862,022	11,867,022
2026-2028	6,335,000	701,411	7,036,411
Total	26,045,000	$ 9,144,979	$ 35,189,979
Less current portion	(1,950,000)		
Unamortized bond premium	1,075,145		
Total non-current COP obligation	$ 25,170,145		

2012 Series A Bond

On April 19, 2012, the District issued $29,200,000 of Refunding Revenue Bonds Series 2012A (bonds) at a true interest cost of 3.66 percent, to current refund the Series 2008A-2 COP obligation with an outstanding balance of $33,300,000. This serial bond's maturity extends to November 1, 2027 and is subject to optional and extraordinary redemption provisions, without premium. Proceeds of the bonds, less $417,002 to pay the costs of issuing the bonds, were placed in escrow to immediately pay the outstanding principal plus accrued interest on the Series 2008A-2 COP obligation, without premium.

(8) Long-Term Debt, continued

As of December 31, 2015, the future debt service schedule of the 2012 Series A Revenue Bond is as follows:

Year	Principal	Interest	Total
2016	$ 1,995,000	$ 909,925	$ 2,904,925
2017	2,030,000	829,892	2,859,892
2018	2,105,000	748,192	2,853,192
2019	2,160,000	667,225	2,827,225
2020	2,235,000	597,394	2,832,394
2021-2025	8,325,000	1,589,185	9,914,185
2026-2028	2,665,000	154,267	2,819,267
Total	21,515,000	$ 5,496,080	$ 27,011,080
Less current portion	(1,995,000)		
Unamortized bond premium	2,836,115		
Total non-current bond obligation	$ 22,356,115		

Arbitrage Rebate Requirement
The federal Tax Reform Act of 1986 imposes an arbitrage rebate requirement that affects all tax-exempt debt issued by the District. The term arbitrage refers to the required payment to the U.S. Treasury of excess interest earnings received on applicable tax-exempt debt obligation proceeds which, for the District, is solely made up of debt service reserve funds (restricted cash, cash equivalents, and investments) that are invested in a higher yield than the yield of the tax-exempt debt obligation issue. The District's ultimate rebate of arbitrage earnings on these issues is contingent on various factors, including future yields on invested proceeds. As of December 31, 2015 and 2014, the District has no arbitrage rebate liability.

Interest Rate Swap

Objective and Terms
In order to take advantage of low interest rates in the marketplace, the District entered into a pay-fixed, receive-variable interest rate swap agreement (swap) with Citibank, N.A. upon issuance of the Series 2005A COP obligation at a cost that was less than what otherwise the District would have paid to issue fixed-rate debt. In April 2012, the swap agreement was subsequently amended and restructured with Citibank, N.A. to match the terms of the Series 2009A COP obligation, albeit at a reduced notional amount, after which the swap was novated to Wells Fargo Bank, N.A. The swap's notional amount amortizes in proportionately like amounts to the Series 2009A COP. The swap agreement requires that the District pay Wells Fargo Bank, N.A. a series of future fixed-rate payments monthly based on an annual rate of 3.283%; Wells Fargo Bank, N.A., in turn, is required to pay the District a series of future variable-rate payments equal to 60% of the 1-Month London Inter-bank Offered Rate (LIBOR) plus 0.18% monthly. At the time of restructuring the swap in 2012, the negative fair value of the swap was determined to be $6,745,000, the unamortized amount of which is reported as an "imputed borrowing," a component of long-term debt in the Statements of Net Position.

(8) Long-Term Debt, continued

Fair Value

Based on existing market conditions as of December 31, 2015 and 2014, the swap had a negative fair value of $7,510,224 and $7,420,593 to the District, respectively. The fair value of the District's swap was a negative number due to the overall decline in interest rates for a comparable swap as of those dates. From the District's perspective, this is because the expected future variable-rate payments due from Wells Fargo Bank, N.A., as of those dates, are lower than when the swap was entered into. Pursuant to the requirements of GASB 53, as amended by GASB 59 and 64, as of December 31, 2015, the "on-market" portion of the swap's negative fair value is reported as a component of deferred outflows of resources and non-current liabilities on the Statements of Net Position. The "on-market" portion of the swap is considered an effective hedging instrument as of December 31, 2015 and 2014.

	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Term Date	Counterparty Credit Rating (1)
Dec. 31, 2015	$33,300,000	April 11, 2012	3.283%	60% LIBOR +.18%	$ (7,510,224)	Nov. 1, 2034	Aa2/AA-/AA
Dec. 31, 2014	$33,300,000	April 11, 2012	3.283%	60% LIBOR +.18%	$ (7,420,593)	Nov. 1, 2034	Aa3/AA-/AA-
Dec. 31, 2013	$33,300,000	April 11, 2012	3.283%	60% LIBOR +.18%	$ (4,180,330)	Nov. 1, 2034	Aa3/AA-/AA-

(1) (Moody's Investor Services, Standard and Poor's Ratings Services, and Fitch IBCA, Inc.)

(8) Long-Term Debt, continued

Swap Payments and Notional Amortization for the Period Ended December 31, 2015:

	Notional Amortization	Swap Payments, Net [(1)]	Total
2016	$ -	$ 962,946	$ 962,946
2017	-	962,946	962,946
2018	-	962,946	962,946
2019	-	962,946	962,946
2020	-	962,946	962,946
2021-2025	2,920,000	4,719,545	7,639,545
2026-2030	13,310,000	3,796,311	17,106,311
2031-2034	17,070,000	1,176,500	18,246,500
Total	$ 33,300,000	$ 14,507,086	$ 47,807,086

(1) Based on a 3.283 percent fixed-rate per the amended and restated Swap Confirmation dated April 11, 2012, less the variable receive rate of 0.391 percent as of December 31, 2015.

The swap is intended to hedge interest rate risk on a portion of the District's outstanding Series 2009A COP, which bears interest at a variable rate. The swap, however, contains certain risks. The District has implemented various provisions to address such risks that include, amongst other risks, credit risk, basis risk, termination risk, credit and extension risk, collateral posting and tax risk.

Credit Risk

Counterparty Credit Risk - The counterparty, Wells Fargo Bank, N.A. could be in default on swap payments owed to the District, or file for bankruptcy. This could result in a termination event, in which case the District could immediately owe (or be owed) the fair market value of the swap. Additionally, if the counterparty's credit rating falls below certain thresholds or is withdrawn, a termination event may result, in which case the District could immediately owe (or be owed) the fair market value of the swap.

District Credit Risk - If the District's credit rating on the Series 2009A COP falls below certain thresholds or is withdrawn, a termination event may result, in which case the District could immediately owe (or be owed) the fair market value of the swap.

Basis Risk

Basis risk is the risk that the interest rates paid by the District on its variable-rate Series 2009A COP obligation may differ from the variable interest rate received from Wells Fargo Bank, N.A. This could result from a general market disparity between weekly rates paid by the District compared to 1-month LIBOR received from Wells Fargo Bank, N.A. It could also result from higher relative rates on the District's Series 2009A COP compared to similar securities. This could be related to factors such as negative investor perception of the credit quality of the Series 2009A COP.

(8) Long-Term Debt, continued

Termination Risk

A number of events are specified in the swap agreement that could result in the District immediately owing (or owed) the swap's fair market value. These include, but are not limited to, downgrades to either the District's or Wells Fargo Bank, N.A.'s credit rating, events of default or bankruptcy of either party, and unscheduled redemptions of principal or modification to the amortization schedule of the District's Series 2009A COP.

Credit and Extension Risk

The District's Series 2009A COP is supported by Sumitomo Mitsui Banking Corporation through a direct-pay letter of credit facility. Such a facility is required for the Series 2009A COP to remain marketable and outstanding as variable rate securities. If Series 2009A COP investors perceive this facility negatively, the Series 2009A COP may bear higher rates than comparable securities (which may result in basis risk). In addition, the Certificate credit and liquidity facility must be extended periodically or replaced by a comparable provider. The current facility expires on June 30, 2015. To the extent the facility cannot be replaced or extended, various potential impacts of this, including accelerations of Series 2009A COP principal repayment, could result in a swap termination event.

Collateral Posting Risk

Based on certain thresholds of the fair market value of the swap and the ratings of the District or Wells Fargo Bank, N.A., either party may be required to post collateral (i.e. cash or certain allowable securities). For example, based on the District's current Moody's Investor Services rating of Aa2, the negative fair value of the swap would need to exceed $20 million before the District would need to post $1 million in cash or securities as collateral.

Tax Risk

The swap exposes the District to tax risk if a permanent mismatch occurs between the variable-rate received from the swap and the variable-rate paid on the Series 2009A COP due to tax law changes such that the federal or state tax exemption on municipal debt is eliminated or its value reduced.

(9) Net Investment in Capital Assets

The District's net investment in capital assets, net of related debt, at December 31, consists of the following:

	2015	**Restated 2014**
Capital assets not being depreciated	$10,178,827	$ 9,754,190
Capital assets being depreciated and amortized, net	269,642,623	260,901,986
Deferred outflows on long-term debt refundings	7,964,338	8,607,462
Long term debt	(99,093,712)	(103,528,879)
Net investment in capital assets, considered non-expendable	$188,692,076	$175,734,759

(10) Restricted Net Position

Restricted net position balance as of December 31, consists of the following:

	2015	2014
2009A Certificates of participation reserve fund	$ 1	$ -
2009B Certificates of participation reserve fund (cash and interest receivable)	3,523,430	3,540,068
2012A Revenue bond interest payment fund	4	14
Total restricted net position	$ 3,523,435	$ 3,540,082

This component of net position consists of external constraints placed by creditors.

(11) Unrestricted Net Position

Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action at any time. Currently, the District's Reserve Policy calls for three fund classifications that collectively comprise the District's unrestricted net position: Committed funds, Assigned funds and remaining funds not otherwise restricted, committed or assigned. Committed funds are those financial assets set aside by the Board for specific purposes as determined by Board resolution or ordinance. As of December 31, 2015 and 2014 the District has one committed fund with a balance of $-0- and $28,378, respectively. The committed fund is for developers required to install extension facilities (up-sized line or the extension of facilities beyond the frontage of a parcel) as a requirement for obtaining water service. This fund is utilized to reimburse the developer, in whole or in part, for the extension facility based on the proportion of funds collected from all developers for that calendar year. Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board annually or as needs arise. The Board has several classes of such assigned funds but is not bound legally or contractually on the retention of such funds and, as such, amounts in assigned funds are available to meet the general obligations of the District.

(12) Deferred Compensation Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide employees, who elect to participate, the opportunity to defer receipt of a portion of their compensation until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred compensation for income tax purposes. Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants or their beneficiaries. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. The market value of all plan assets held in trust by the District for its deferred compensation program at December 31, 2015 and 2014, amounted to $3,441,058 and $2,977,830, respectively.

(13) Defined Benefit Pension Plan

A. General Information about the Pension Plan:

Plan Descriptions:
All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Cost-Sharing Multiple Employer Defined Benefit Pension Plan administered by the California Public Employees' Retirement System (CalPERS). The Board has established a single "Cost-Sharing Miscellaneous" pension plan with CalPERS that is comprised of the following Rate Plans (Plans):

- Miscellaneous Plan – 3.0% at 60
- Miscellaneous Plan – 2.0% at 55
- Miscellaneous Plan – 2.0% at 62 (PEPRA)

Benefit provisions under the Plans are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at https://www.calpers.ca.gov/.

Benefits Provided:
CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for 2.0% at 62 Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at December 31, 2015 and 2014, are summarized as follows:

	Miscellaneous		
Hire date	Prior to 09/25/2006	After 9/25/2006 and Prior to 01/01/2013	On or after 01/01/2013
Benefit formula	3.0% at 60	2.0% at 55	2.0% at 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 60	50 - 63	52 - 67
Monthly benefits as a % of eligible compensation	2.0% to 3.0%	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0%*	7.0%*	6.5%
Required employer contribution rates – 2015	20.72%	9.21%	6.73%
Required employer contribution rates – 2014	17.82%	11.84%	6.70%
Open or Closed to New Entrants	Closed	Closed to new members that are not already CalPERS eligible participants	Open

(* Paid by District on behalf of employees)

(13) Defined Benefit Pension Plan, continued

Contributions:

CalPERS Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended December 31, 2015 and 2014, District contractually required contributions for each Plan were as follows:

2015	3.0% at 60	2.0% at 55	2.0% at 62	Combined
Contributions - employer	$ 572,133	$ 103,900	$ 26,757	$ 702,790

2014	3.0% at 60	2.0% at 55	2.0% at 62	Combined
Contributions – employer	$ 491,976	$ 111,413	$ 16,649	$ 620,038

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of December 31, 2015 and 2014, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

Miscellaneous	2015 Proportionate Share of Net Pension Liability	2014 Proportionate Share of Net Pension Liability
3.0% at 60	$ 5,572,897	$ 4,899,121
2.0% at 55	149,403	162,582
2.0% at 62	(282)	-
Total	$ 5,722,018	$ 5,061,703

The District's net pension liability for each Plan is measured as the proportionate share of the Pool's net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015 and 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 rolled forward to June 30, 2015 and 2014 using standard update procedures. For June 30, 2015, the District's proportion of the net pension liability was based on its proportion of the 2014 Accrued Actuarial Liability relative to the 2014 Accrued Actuarial Liability of all participating employers applied to the 2015 Total Pension Liability, less the District's proportion of 2014 Market Value of Assets relative to the 2014 Market Value of Assets of all employers applied to the 2015 Fiduciary Net Position. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015, 2014 and 2013 was as follows:

(13) Defined Benefit Pension Plan, continued

	3.0% at 60	2.0% at 55	2.0% at 62	Combined
Proportion - June 30, 2013	0.204292 %	0.006780 %	-	0.211071 %
Proportion - June 30, 2014	0.198226 %	0.006578 %	-	0.204804 %
Change - Increase (Decrease)	(0.006066) %	(0.000202)%	-	(0.006267)%

	3.0% at 60	2.0% at 55	2.0% at 62	Combined
Proportion - June 30, 2014	0.198226 %	0.006578 %	-	0.204804 %
Proportion - June 30, 2015	0.203133 %	0.005446 %	(0.000010)%	0.208569 %
Change - Increase (Decrease)	0.004907 %	(0.001132)%	(0.000010)%	0.003765 %

For the year ended December 31, 2015 and 2014, the District recognized pension expense of $392,428 and $913,045, respectively. At December 31, 2015 and 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2015	2014	2015	2014
Pension contributions subsequent to measurement date	$ 504,894	$ 459,672		
Changes in assumptions	-	-	$ 395,771	$ -
Net difference between projected and actual earnings on pension plan investments	-	-	198,405	1,700,967
Differences between expected and actual experiences	41,832	-	-	-
Differences between actual and allocated contributions	-	-	172,503	57,361
Adjustment due to differences in proportion	-	-	31,855	60,103
Total	$ 546,726	$ 459,672	$ 798,534	$1,818,431

The $504,894 and $459,672 reported as deferred outflows of resources as of December 31, 2015 and 2014 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2015 and 2014, respectively. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized as pension expense as follows:

Year Ended December 31	
2016	$ (365,049)
2017	$ (356,656)
2018	$ (288,606)
2019	$ 253,609

(13) Defined Benefit Pension Plan, continued

B. Actuarial Methods and Assumptions Used to Determine Total Pension Liability:
The total pension liabilities in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% - 14.20% (1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate:
The discount rate used to measure the total pension liability was 7.65 percent for each Plan. 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 expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time a change in methodology occurs.

(13) Defined Benefit Pension Plan, continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the 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 rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% is used for this period.
(b) An expected inflation of 3.0% is used for this period.

C. Changes in the Net Pension Obligation:

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:
The following presents the District's proportionate share of the net pension obligation for each Plan as of June 30, 2015, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

(13) Defined Benefit Pension Plan, continued

	Sensitivity to 1-Percent Change
1% Decrease	6.65%
Net Pension Liability	$ 9,596,223
Current Discount Rate	7.65%
Net Pension Liability	$ 5,722,018
1% Increase	8.65%
Net Pension Liability	$ 2,523,412

Plan Fiduciary Net Position:
Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan:
At December 31, 2015 and 2014, the District had no outstanding payable to the pension plans.

(14) Postemployment Benefits

Plan Description
In addition to pension benefits, the District provides certain healthcare benefits through CalPERS, and dental and vision benefits through private insurance carriers (postemployment benefits) for retired employees, certain former Northridge Water District directors, and their survivor dependents, subject to certain conditions.

The District made the decision to establish an irrevocable trust to prefund postemployment benefits by participating in the "California Employers' Retiree Benefit Trust (CERBT)", which is a defined benefit agent-multiple employer plan as defined in GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB 43) and meets the requirements to qualify as a prefunding Trust as defined by Section 115 of the Internal Revenue Code. CERBT is run by CalPERS for investment purposes. Copies of the CERBT annual financial report may be obtained by contacting CalPERS at (888) 225-7377 or at their Executive Offices at 400 P Street, Sacramento, CA 95814. Prior to establishing the irrevocable trust with CERBT, the District expensed on a pay-as-you-go basis the direct costs of premiums paid on postemployment benefits for current retirees.

Eligibility
Substantially all of the District's full-time employees may become eligible for postemployment health benefits after age fifty and after working for the District for five years if hired before January 1, 2003. If hired after January 1, 2003, eligibility for such benefits is based on a minimum of ten years of qualifying service working with an employer that is a CalPERS healthcare provider. Retirement from the District is also a condition of eligibility for postemployment health benefits (the District must be the last employer prior to retirement). In addition, eligible retirees are required to pay a portion of the cost of certain medical insurance plans offered by CalPERS above a minimum amount established annually by the District. Eligible retirees hired after January 1, 2003, not fully-vested in postemployment health benefits, are required to pay a portion of health insurance costs

(14) Postemployment Benefits, continued

up to the extent they are not fully vested. Certain former Northridge Water District directors with twelve years of service are also eligible for postemployment benefits. At December 31, 2015 and 2014, 30 and 27 retired employees, directors, and their survivor dependents met those eligibility requirements, respectively.

Funding Policy

Participants are not required to make contributions to the plan in order to receive benefits. Contribution requirements of employees and the District are established and may be amended by the Board of Directors. During 2008, the District adopted a policy to fully fund the Annual Required Contribution (ARC) for postemployment benefits into CERBT. The ARC rate for 2015 and 2014 are 13.66 percent and 14.11 percent of annual covered payroll, respectively.

In accordance with the provisions of GASB 45, as the District is fully funding its ARC the Actuarial Accrued Liability (AAL) is not shown on the Statements of Net Position. The ARC was fully funded in both 2015 and 2014 in the amount of $591,000 and $592,700, respectively. The ARC amounts funded include the normal cost of $348,000 in 2015 and $346,800 in 2014, and $243,000 and $245,900 to amortize the Unfunded Actuarial Accrued Liability (UAAL) in 2015 and 2014, respectively.

Funded Status and Funding Progress of the Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2015	$ 3,746,037	$ 6,239,224	$ 2,493,187	60.0%	$4,300,000	58.0%

The District's annual other postemployment benefit costs (OPEB) for the years ended December 31, 2015, 2014, and 2013, were equal to its ARC amounts for each year of $591,000, $592,700 and $576,300, respectively. As the District fully funds its ARC, there is no reportable net OPEB obligation for each of the years so referenced.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits. The Schedule of Funding Progress, presented in the Required Supplementary Information section of this report, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(14) Postemployment Benefits, continued

Valuation date	July 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll amortization
Remaining amortization period – closed	10 years as of the valuation date
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return (discount rate)	7.00%
Projected salary increase	2.75%
Long-term inflation rate	2.75%
Projected medical increase	4.00%
Projected dental increase	4.00%
Projected vision increase	3.00%

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District and approximately 295 other municipalities (the Members) have entered into a joint powers agreement with the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) for the purpose of risk sharing to meet the needs of its Members for liability, property and workers' compensation insurance coverage. Each Member selects one representative to serve as a director, with nine directors serving staggered terms as an executive committee. The only transactions between the District and ACWA/JPIA during the years ending December 31, 2015 and 2014 were regularly scheduled premium payments which were not material to the District's financial statements. At December 31, 2015, the District participated in the following programs of the ACWA/JPIA:

- General and auto liability, public officials and errors and omissions: Total risk financing self-insurance limits of $2 million, per occurrence. ACWA/JPIA purchased additional excess coverage layers to a total of $60 million for general, auto and public officials' liability.

In addition to the above, the District also has the following insurance coverage:

- Crime coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, and computer fraud, subject to a $1,000 deductible per loss.

- Property loss for buildings, fixed equipment or personal property is paid at the replacement cost, if replaced within two years after the loss, otherwise paid on an actual cash value basis; property loss for mobile equipment and vehicles is paid at actual cash value basis, subject to a $2,500 deductible for buildings, fixed equipment and personal property, and a $1,000 deductible for mobile equipment and vehicles per occurrence. The ACWA/JPIA self-insures for the first $100,000 and has purchased reinsurance up to $100 million per loss.

- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment.

(15) Risk Management, continued

- Workers' compensation insurance up to California statutory limits, and Employer's Liability of $4 million for all work related injuries/illnesses covered by California law. The ACWA/JPIA self-insures for the first $2 million and has purchased excess coverage.

Settled claims have not exceeded any of the coverage amounts in any of the last three years and there were no reductions in the District's insurance coverage during the years ending December 31, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2015 and 2014.

Copies of ACWA/JPIA's annual financial reports and other pertinent information may be obtained from their office at 2100 Professional Drive, Roseville, CA 95661-3700, from their website at www.acwajpia.com., or by calling (800) 231-5742.

(16) Commitments and Contingencies

Sacramento Regional County Sanitation District – Riverwalk Well Field Lease

The District is leasing a 5.5 acre parcel from the Sacramento Regional County Sanitation District for its Riverwalk Well Field. The effective date of the lease was from June 1, 1987 to May 31, 2012. In 2012, the District exercised its option upon expiration of the initial term of the lease and extended the lease term to May 31, 2037. The original lease amount of $12,750, paid in advance each year, is adjusted annually on the anniversary date of the lease to reflect any increase or decrease of the National Consumer Price Index of the preceding year. The annual lease costs for calendar years 2015 and 2014 were $27,422 and $26,855, respectively. Future estimated lease commitment costs for the period January 1, 2016, to May 31, 2037, are estimated to be $587,294, as of December 31, 2015.

Placer County Water District/Folsom Lake Reservoir – Take-or-Pay Contract

In 1995 (and amended in 2000 & 2008), the District and the Placer County Water Agency (Agency) entered into a 25-year take-or-pay agreement whereby the Agency agreed to make available to the District, subject to water shortage provisions, the following amounts of untreated water at escalating water prices per year.

Year	Contract Requirement	Option to Buy Up to	
2000 to 2007	7,000 to 22,000	-	acre feet
2008*	23,000	-	acre feet
2009	12,000	24,000	acre feet
2010	12,000	25,000	acre feet
2011	12,000	26,000	acre feet
2012	12,000	27,000	acre feet
2013	12,000	28,000	acre feet
2014 to 2025	12,000	29,000	acre feet

* Contract renegotiated in 2008, effective in 2010, requires 12,000 acre feet per year take-or-pay with the option to buy additional water.

(16) Commitments and Contingencies, continued

Each year the District is required to pay for its annual entitlement or surrender a portion of its rights so that the Agency will be free to put the water to use elsewhere. In order to do this, if the District does not take-or-pay for its annual entitlement for any year, the District's annual entitlement for each year thereafter is reduced by 50% of the amount which the District did not take-or-pay for during the year. The District's annual entitlement is subject to certain temporary or permanent reduction or elimination whenever the Agency notifies the District that the Agency has determined that it will not have sufficient water under certain provisions of the contract. In this situation, the District is relieved of its take-or-pay obligation. The most common event that would trigger the Agency providing notification to the District would be a projection of unimpaired inflow to Folsom Lake reservoir dropping below 1.6 million acre feet.

Each year the District is to pay the Agency for each acre-foot of the District's annual entitlement made available for use in the District's service area in order of the highest of the following three rates: (1) Thirty-five dollars ($35); (2) One hundred seventy-five percent (175%) of the acre-foot price the Agency charges the City of Roseville and the San Juan Water District that year for water made available to them in the Folsom Lake reservoir for use within Placer County; or (3) One hundred fifty percent (150%) of the total amount, per acre-foot, including any restoration and other fees and charges, which the Agency is required to pay that year to the U.S. Bureau of Reclamation (Reclamation) for water to be used within the Agency pursuant to the Agency's September 18, 1970 contract with Reclamation as amended, supplemented or renewed.

Grant Awards

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such reviews or audits could generate expenditure disallowances under the terms of the grants, it is management's opinion that any required reimbursements would not be material.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition as of December 31, 2015.

(16) Commitments and Contingencies, continued

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is provided primarily by District's customers via a "Capital Facilities Charge" included in their monthly invoice. As of December 31, 2015, the District's commitment on open construction contracts is $3.7 million:

Project Name	Approved Contract	Payments To Date	Remaining Commitment
Two Groundwater Monitoring Wells	$ 87,640	$ (32,039)	$ 55,601
Rutland Well and Pumping Plant	2,491,726	(514,930)	1,976,796
Verner Well Manganese Treatment Design	275,083	(23,529)	251,554
Eastern-Rand Waterline Connection	543,769	(327,014)	216,755
Fair Oaks Estates Main Replacement	1,682,479	(1,404,958)	277,521
Barcelona Way Waterline Replacement	1,077,869	(635,719)	442,150
Watt Avenue at Magpie Creek Mainline Connection	557,819	(414,324)	143,495
Brightwood Waterline Extension	141,062	(92,681)	48,381
Pasadena Avenue Mainline Connection	111,124	(42,356)	68,768
Water Master Plan & 2015 Urban Water Management Plan	284,469	(112,167)	172,302
Total	$ 7,253,040	$ (3,599,717)	$ 3,653,323

Required Supplementary Information

Sacramento Suburban Water District
Required Supplementary Information (Unaudited)
For The Years Ended December 31, 2015 and 2014

Schedule of Funding Progress
Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2015	$ 3,746,037	$ 6,239,224	$ 2,493,187	60.0%	$ 4,300,000	58.0%
7/1/2013	2,579,100	6,348,900	3,769,800	40.6%	4,200,000	89.8%
7/1/2011	1,681,000	5,770,700	4,089,700	29.1%	4,073,600	100.4%

Sacramento Suburban Water District
Required Supplementary Information (Unaudited)
For The Years Ended December 31, 2015 and 2014

Schedule of the Proportionate Share of the Net Pension Liability
Last 10 Years (1)

	2015	2014
Proportion of the net pension liability	0.208569 %	0.204804 %
Proportionate share of the net pension liability	$ 5,722,018	$ 5,061,703
Covered payroll	$ 4,275,515	$ 4,063,473
Proportionate share of the net pension liability as a % of covered payroll	1.338%	1.246%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Notes to Schedule:

(1) Omitted Years: GASB 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.
(2) Change in Benefit Terms: The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies to voluntary benefit charges as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).
(3) Changes in Assumptions: The June 30, 2015 Actuarial Valuation changed the discount rate from 7.50% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expense.

Schedule of Contributions to the Pension Plan
Last 10 Years (1)

	2015	2014
Contractually required contribution (actuarially determined)	$ 702,790	$ 620,038
Contributions in relation to the actuarially determined contributions	(702,790)	(620,038)
Contribution deficiency (excess)	$ -	$ -
Covered – employee payroll	$ 4,275,515	$ 4,063,473
Contributions as a percentage of covered employee payroll	16.44 %	15.26 %
Valuation Date	June 30, 2015	June 30, 2014

Methods and assumptions used to determine contribution rates:	2015	2014
Actuarial cost method	Entry-Age Normal	
Amortization method	Level percentage of payroll, closed	
Remaining amortization period	14 years	15 years
Asset valuation method	5-year smoothed market	
Inflation	2.75%	2.75%
Salary increases	Varies by Entry Age and Service	
Payroll growth	3.00% (2)	3.00% (2)
Investment rate of return	7.50% (3)	7.50% (3)
Retirement age and Mortality	(4)	(4)

Notes to Schedule:

(1) Omitted Years: GASB 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.
(2) Including inflation of 2.75%
(3) Net of pension plan investment expenses, includes inflation.
(4) Probabilities of retirement and mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Statistical Section (Unaudited)

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Sacramento Suburban Water District
Statistical Information (Unaudited)

Contents

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the basic financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Statements of Net Position
Last Ten Years
(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	Restated 2013	Restated 2014	2015
Assets										
Current assets	$ 22,948	$ 25,229	$ 29,194	$ 18,554	$ 17,056	$ 12,711	$ 9,045	$ 9,632	$ 4,611	$ 7,258
Noncurrent assets	36,628	33,928	32,509	43,421	40,180	42,714	43,299	44,416	43,456	40,702
Capital assets:										
Nondepreciable assets	17,280	8,208	4,925	14,755	12,483	23,829	10,426	6,022	9,754	10,179
Depreciable assets	243,834	266,782	285,410	295,392	320,928	327,124	358,258	380,164	398,749	418,719
Accumulated depreciation	(70,249)	(74,711)	(83,006)	(91,246)	(100,380)	(110,084)	(119,900)	(127,125)	(137,847)	(149,076)
Capital assets, net	190,865	200,279	207,329	218,901	233,031	240,869	248,784	259,061	270,656	279,822
Total assets	250,441	259,436	269,032	280,876	290,267	296,294	301,128	313,109	318,723	327,782
Deferred outflows of resources	-	-	-	4,544	12,656	16,254	11,556	9,715	9,743	9,276
Liabilities										
Current liabilities	6,023	6,630	7,297	7,242	9,387	8,287	7,844	7,840	7,935	8,583
Noncurrent liabilities	122,883	120,811	109,622	111,368	116,508	116,889	110,403	111,250	105,793	101,940
Total liabilities	128,906	127,441	116,919	118,610	125,895	125,176	118,247	119,090	113,728	110,523
Deferred inflows of resources	-	-	-	-	-	-	-	2,565	1,819	799
Net position										
Net investment in capital assets	82,389	88,634	99,014	110,210	126,110	137,004	146,682	160,474	175,735	188,692
Restricted	8,469	9,467	6,310	6,762	6,642	6,643	3,532	3,520	3,540	3,523
Unrestricted	30,677	33,894	46,789	49,838	44,277	43,725	44,223	37,175	33,644	33,521
Total net position	$ 121,535	$ 131,995	$ 152,113	$ 166,810	$ 177,029	$ 187,372	$ 194,437	$ 201,169	$ 212,919	$ 225,736

Sacramento Suburban Water District
Statistical Information (Unaudited)
Changes in Net Position
Last Ten Years
(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	Restated 2013	Restated 2014	2015
Operating Revenues										
Water sales	$9,245	$9,689	$10,897	$11,031	$10,967	$10,151	$11,656	$12,451	$10,827	$ 9,644
Water transfers	-	-	-	2,347	637	-	-	536	-	-
Water service charge	7,263	8,495	8,050	7,415	7,174	7,095	6,820	6,608	6,306	6,402
Capital facilities charge	9,066	12,545	16,436	19,977	20,493	20,448	20,619	20,650	20,678	21,646
Wheeling water charge	160	146	295	148	273	303	170	6	6	6
Other charges	387	733	1,129	971	991	960	946	1,068	1,113	992
Total operating revenues	26,121	31,608	36,807	41,889	40,535	38,957	40,211	41,319	38,930	38,690
Operating Expenses										
Source of supply	1,345	1,599	1,843	2,334	2,290	2,663	2,039	406	67	57
Pumping	2,614	3,582	3,253	3,461	3,265	3,341	4,238	4,706	4,631	5,124
Transmission and distribution	2,943	3,973	3,544	3,838	3,583	3,997	3,596	3,886	3,643	3,621
Water conservation	302	286	483	490	415	202	295	321	399	773
Customer accounts	635	726	918	960	968	1,003	976	1,086	1,122	1,159
Administrative and general	4,650	5,595	5,950	5,709	10,176	6,135	5,738	5,919	6,100	6,120
Total operating expenses	12,489	15,761	15,991	16,792	20,697	17,341	16,882	16,324	15,962	16,854
Operating income before depreciation	13,631	15,847	20,816	25,097	19,838	21,616	23,329	24,995	22,968	21,836
Depreciation	(5,880)	(7,465)	(8,295)	(8,792)	(9,171)	(9,705)	(9,890)	(10,424)	(10,812)	(11,257)
Operating income	**7,751**	**8,382**	**12,521**	**16,305**	**10,667**	**11,911**	**13,439**	**14,571**	**12,156**	**10,579**
Non-operating revenues	2,807	3,464	10,545	1,504	1,693	1,520	(3,540)	488	920	816
Interest expense	(4,430)	(5,321)	(6,266)	(5,183)	(5,133)	(4,773)	(4,157)	(3,914)	(3,802)	(3,633)
Other non-operating expenses	(14)	(2)	(132)	(103)	(117)	(7)	(418)	-	-	-
Gain (loss) on disposal of capital assets, net	(528)	(18)	-	(1)-	243	-	12	-	21	6
Income before capital contributions	**5,586**	**6,505**	**16,668**	**12,522**	**7,353**	**8,651**	**5,336**	**11,145**	**9,295**	**7,768**
Capital contributions	4,843	3,955	3,450	2,175	2,405	1,692	1,729	3,096	2,455	5,049
Increase in net position	**10,429**	**10,460**	**20,118**	**14,697**	**9,758**	**10,343**	**7,065**	**14,241**	**11,750**	**12,817**
Net position, beginning of year	111,106	121,535	131,995	152,113	166,810	177,029	187,372	194,437	201,169	212,919
Adjustment	-	-	-	-	461	-	-	(7,509)	-	-
Net position, end of year	121,535	131,995	152,113	166,810	177,029	187,372	194,437	201,169	212,919	225,736

Sacramento Suburban Water District
Statistical Information (Unaudited)
Operating Revenues by Source
Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Water Sales (Dollars in Thousands):										
Retail	$25,574	$30,730	$35,383	$38,423	$38,634	$37,694	$39,095	$39,709	$37,811	$37,692
Wheeling	160	146	295	149	273	303	170	6	6	6
Water Transfers	-	-	-	2,347	637	-	-	536	-	-
Total Water Sales	$25,734	$30,876	$35,678	$40,919	$39,544	$37,997	$39,265	$40,251	$37,817	$37,698
Water Production (Acre Feet):										
Retail	36,914	44,024	37,040	34,517	36,353	35,828	38,089	38,554	32,561	27,451
Wheeling	1,092	558	1,458	588	1,632	2,106	642	348	115	51
Water Transfers	-	-	-	8,462	2,712	-	-	2,822	-	-
Total Water Production	38,006	44,582	38,498	43,567	40,697	37,934	38,731	41,724	32,676	27,502
Water Sales/Acre Foot (Whole Dollars):										
Retail	$693	$698	$955	$1,113	$1,062	$1,052	$1,026	$1,030	$1,161	$1,373
Wheeling	$147	$262	$202	$251	$168	$144	$265	$17	$52	$118
Water Transfers	-	-	-	$277	$235	-	-	$190	-	-

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Retail Water Rates
Last Ten Years

	2006	2007	2008	2009 To 2014	2015
Flat Accounts					
Usage Charge ($/1,000 per sq. foot)	$ 0.79	$ 0.70	$ 0.80	$ 0.91	$ 0.95
Flat Service Charge (single unit)					
¾" connection	13.80	15.30	15.12	14.89	15.49
1" connection	18.05	22.82	22.23	21.55	22.41
1 ½" connection	28.65	43.62	42.24	40.69	42.32
2" connection	41.35	49.55	45.04	40.19	41.80
Metered Accounts					
Usage Charge ($/100 cubic feet (CCF))					
Residential – 1st Tier (0-10 CCF)	0.60	0.66	0.73	0.80	0.83
Residential – 2nd Tier (11+ CCF)	0.79	0.83	0.91	1.00	1.04
Non-Resid–Off-Peak Rate (Nov-Apr)	0.71	0.69	0.75	0.81	0.84
Non-Resid.–Peak Rate (May-Oct)	0.91	0.86	0.94	1.01	1.05
Meter Service Charge (by Meter Size)					
5/8" meter	N/A	5.05	4.35	3.60	3.74
¾" meter	7.80	7.35	6.35	5.25	5.46
1" meter	12.05	12.05	10.35	8.50	8.84
1 ½" meter	22.65	23.75	20.30	16.60	17.26
2" meter	35.35	37.80	32.30	24.60	27.46
3" meter	65.10	70.60	60.25	49.20	51.17
4" meter	107.60	117.50	100.20	81.75	85.02
6" meter	213.60	234.55	200.05	163.15	169.68
8" meter	384.50	422.00	359.85	293.40	305.14
10" meter	619.50	679.70	579.55	472.50	491.40
12" meter	N/A	1,007.60	859.10	700.40	728.42
Flat and Metered Accounts					
Capital Facilities Charge					
5/8" meter	N/A	12.35	15.55	19.25	20.02
¾" meter or connection	13.65	18.40	23.20	28.70	29.85
1" meter or connection	22.75	30.75	38.75	48.00	49.92
1 ½" meter or connection	45.50	61.25	77.25	95.65	99.48
2" meter or connection	72.80	98.05	123.65	153.10	159.22
3" meter	136.50	184.00	232.05	287.30	298.79
4" meter	227.50	306.70	386.85	478.95	498.11
6" meter	455.00	613.20	773.40	957.60	995.90
8" meter	819.00	1,103.90	1,392.20	1,723.80	1,792.75
10" meter	1,319.50	1,778.60	2,243.25	2,777.45	2,888.55
12" meter	N/A	2,636.65	3,325.55	4,117.65	4,282.36

Source: District

Sacramento Suburban Water District
Statistical Information (Unaudited)

Facility Development Charges (Connection Fees)

Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
5/8" service	2,417	$ 2,510	$ 2,773	$ 2,874	$ 2,996	$ 3,338	$ 3,544	$ 3,826	$ 2,762	$ 3,130
¾" service	$ 3,608	3,747	4,157	4,309	4,472	4,982	5,290	5,711	4,122	4,728
1" service	6,025	6,257	6,942	7,196	7,468	8,319	8,834	9,537	6,884	7,802
1 ½" service	12,015	12,477	13,843	14,350	14,891	16,589	17,616	19,017	13,726	15,558
2" service	19,230	19,971	22,157	22,968	23,835	26,552	28,196	30,439	21,970	24,902
3" service	36,080	37,469	41,570	43,092	44,718	49,817	52,901	57,108	41,220	46,720
4" service	60,145	62,460	69,297	71,834	74,545	83,045	88,185	95,199	68,714	77,882
6" service	120,254	124,883	138,553	143,625	149,046	166,040	176,318	190,341	137,386	155,718
8" service	216,478	224,812	249,420	258,551	268,309	298,902	317,403	342,648	219,826	249,158
10" service	348,782	362,210	401,857	416,569	432,291	481,581	511,390	552,063	316,034	358,202
12" service	517,130	537,038	595,835	617,648	640,946	714,028	758,225	818,529	463,725	525,600

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Principal Retail Rate Payers
Current Year and Ten Years Prior

Principal Retail Rate Payers	December 31, 2015 Revenues Collected	Rank	Percent of Retail Sales Revenue	December 31, 2004 Revenues Collected	Rank	Percent of Retail Sales Revenue
McClellan Business Park	$ 594,693	1	1.58%	-	-	-
San Juan Unified School District	254,239	2	0.67%	-	-	-
Carmel Partners, MS#3, The Arbors	162,925	3	0.43%	$ 216,358	1	1.02%
Autumn Ridge Apartments	149,473	4	0.40%	48,908	2	0.23%
Twin Rivers Union School District	119,694	5	0.32%	-	-	-
Eskaton Village	118,024	6	0.31%	-	-	-
Valley Green Apartments	106,568	7	0.28%	-	-	-
Sacramento County (AFS/SCRSD)	99,576	8	0.26%	24,583	6	0.12%
Timberlake Association	92,378	9	0.25%	-	-	-
Kaiser Permanente	88,680	10	0.24%	31,361	3	0.15%
Sacramento Mercy Healthcare	-	-		27,164	4	0.13%
Hillsdale Mobile Home Park	-	-		26,772	5	0.13%
Arden Fair Mall	-	-		22,716	7	0.11%
Rio Americano High School	-	-		21,220	8	0.10%
Fairway Estates	-	-		19,845	9	0.09%
Red Lion's Sacramento	-	-		19,230	10	0.09%
Total Principal Retail Rate Payers	$ 1,786,250	-	4.74%	$ 458,157	-	2.16%
Total Annual Retail Water Sales Revenue	$37,692,211	-	-	$21,212,454	-	-

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Outstanding Debt by Type and Number of Connections
Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Long-Term Debt Principal:										
(Dollars in Thousands)										
Series 2004	$41,658	$41,750	$41,706							
Series 2005A	76,675	75,265								
Series 2005B	5,860	4,505	3,110	$ 1,645	$ 125					
Series 2008A-1			36,725							
Series 2008A-2			36,725	35,860	34,960	$33,300				
Series 2009A				42,000	42,000	42,000	$48,553	$48,249	$47,939	$47,623
Series 2009B				36,873	36,109	34,495	32,732	30,943	29,074	27,120
Series 2012A							30,760	28,646	26,516	24,351
Total Debt	124,193	121,520	118,266	116,378	113,194	109,795	112,045	107,838	103,529	99,094
No. of Connections	43,983	43,998	44,091	44,147	44,185	44,655	44,776	45,391	46,112	46,414
Debt Per Connection (Whole Dollars)	$ 2,824	$ 2,762	$ 2,682	$ 2,636	$ 2,562	$ 2,459	$ 2,502	$2,376	$2,245	$2,135

Source: District

Sacramento Suburban Water District
Statistical Information (Unaudited)
Schedule of Net Revenues
Last Ten Years
(Dollars in Thousands)

	2006	2007	2008	2009	Restated 2010	Restated 2011	2012	Restated 2013	Restated 2014	2015
Revenues										
Water sales	$ 25,605	$ 30,730	$ 35,383	$ 38,423	$ 38,634	$ 37,694	$ 39,095	$39,709	$37,811	$37,692
Water transfers	-	-	-	2,347	637	-	-	536	-	-
Wheeling charge	160	146	295	149	273	303	170	6	6	6
Water services	356	734	1,129	970	991	960	946	1,068	1,113	992
Facility development charges	1,035	487	1,660	424	121	161	380	187	561	543
Investment income	1,585	2,550	2,738	1,112	1,267	1,052	(3,888)	89	548	458
Other	135	341	557	392	669	468	360	399	394	364
Total revenues	28,876	34,988	41,762	43,817	42,592	40,638	37,063	41,994	40,433	40,055
Operating Expenses										
Transmission and distribution	2,943	3,973	3,544	3,838	3,583	3,997	3,596	3,886	3,642	3,621
Administrative and general*	4,267	5,225	6,082	5,813	10,293	6,142	6,156	5,919	6,100	6,120
Pumping	2,614	3,582	3,253	3,461	3,265	3,341	4,238	4,706	4,632	5,124
Water purchases	1,345	1,599	1,843	2,334	2,290	2,663	2,039	406	67	57
Customer accounts	635	726	919	959	968	1,003	976	1,086	1,122	1,159
Water conservation	316	286	483	490	415	202	295	321	400	773
Total expenses	12,120	15,391	16,124	16,895	20,814	17,348	17,300	16,324	15,963	16,854
Net revenue	16,756	19,597	25,638	26,922	21,778	23,290	19,763	25,670	24,470	23,201
Debt service	6,965	7,933	9,034	8,095	7,974	7,829	7,576	7,429	7,468	7,425
Coverage ratio	**2.41**	**2.47**	**2.84**	**3.33**	**2.73**	**2.97**	**2.61**	**3.46**	**3.28**	**3.12**
Revenues available for capital projects and other purposes	$ 9,791	$11,664	$ 16,604	$ 18,827	$ 13,804	$ 15,460	$ 12,187	$ 18,240	$ 17,002	$15,776

* Administrative and general operating expenses include "other non-operating expenses" as reported on the Statements of Revenues, Expenses and Changes in Net Position.

Source: District

Sacramento Suburban Water District
Statistical Information (Unaudited)
Demographic and Economic Statistics
Sacramento County*
Last Ten Years

Year	Population	Personal Income ($ in 000s)	Per Capita Income	Labor Force	Number Employed	Number Unemployed	Unemployment Rate
2015	Information Not Currently Available			685,900	645,600	40,300	5.90%
2014	1,482,026	65,126,187	$43,944	682,200	632,200	50,000	7.30%
2013	1,463,149	62,440,643	$42,676	680,900	620,400	60,500	8.90%
2012	1,448,771	60,721,694	$41,913	682,700	610,900	71,800	10.50%
2011	1,435,601	57,564,251	$40,098	679,800	597,600	82,300	12.10%
2010	1,421,838	54,673,384	$38,453	682,500	596,400	86,100	12.60%
2009	1,408,601	53,647,258	$38,085	681,100	606,100	75,000	11.00%
2008	1,394,438	54,201,689	$38,870	679,400	630,300	49,100	7.20%
2007	1,381,161	52,398,021	$37,938	675,800	639,100	36,700	5.40%
2006	1,369,563	50,550,671	$36,910	668,800	637,000	31,800	4.80%

* Information for Demographic and Economic Statistics is provided for the County of Sacramento since the District is located within the County and such information is not available solely for the District's service area.

Source:
Population and Income: U.S. Department of Commerce, Bureau of Economic Analysis.
Labor Force and Employment Data: Annual Averages; State of California, Employment Development Department.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Principal Employers
Sacramento County*

	December 31, 2015			December 31 ,2006		
Principal Employers	**Employees**	**Rank**	**Percentage of Total Employed**	**Employees**	**Rank**	**Percentage of Total Employed**
State of California	74,329	1	10.84%	67,467	1	10.09%
Sacramento County	10,598	2	1.55%	14,408	2	2.15%
UC Davis Health System	9,706	3	1.42%	7,901	3	1.18%
U.S. Government	9,668	4	1.41%			
Sutter Health Sacramento Sierra Region	8,817	5	1.29%			
San Juan Unified School District	7,523	6	1.10%	5,775	8	0.86%
Kaiser Permanente	6,464	7	0.94%	6,656	6	1.00%
Dignity Health	6,286	8	0.92%	4,897	10	0.73%
Intel Corp.	6,200	9	0.90%	7,000	4	1.05%
Elk Grove Unified School District	5,758	10	0.84%	-	-	-
Sacramento City Unified School District	-	-	-	7,000	4	1.05%
Los Rios Community College	-	-	-	6,000	7	0.90%
City of Sacramento	-	-	-	5,105	9	0.76%
Total	145,349		21.19%	132,209		19.77%
Total Labor Force	685,900			668,800		

* Information for Principal Employers is provided for the County of Sacramento since the District is located within the County and such information is not available solely for the District's service area.

Source:
Principal Employers: Sacramento Business Journal, Book of Lists 2015, Vol. 32, No. 44, p.16.
Total Labor Force: Annual Averages; State of California, Employment Development Department.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Annual Water Production
Last Ten Years
(Reported in Acre Feet)

	North Service Area			South Service Area			
Year	Surface	Ground	Sub Total	Surface	Ground	Sub Total	Total Production
2015	80	15,702	15,782	-	11,720	11,720	27,502
2014	-	18,801	18,801	-	13,875	13,875	32,676
2013	409	21,886	22,295	-	16,607	16,607	38,902
2012	4,738	17,697	22,435	6,463	9,833	16,296	38,731
2011	14,729	7,741	22,470	4,084	11,380	15,464	37,934
2010	15,518	6,522	22,040	2,289	13,656	15,945	37,985
2009	8,212	10,203	18,415	3,872	12,818	16,690	35,105
2008	12,239	6,985	19,224	2,743	16,531	19,274	38,498
2007	3,842	21,839	25,681	3,701	15,200	18,901	44,582
2006	12,642	5,480	18,122	-	19,884	19,884	38,006

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Wheeling Water Deliveries
Last Ten Years
(Reported in Acre Feet)

Year	California American Water Company	Citrus Heights Water District	Rio Linda / Elverta Water District	City of Sacramento	County of Sacramento	San Juan Water District	Total Deliveries
2015	-	-	-	-	-	51	51
2014	-	-	11	104	-	-	115
2013	-	17	-	331	-	-	348
2012	584	-	25	28	5	-	642
2011	2,103	1	2	-	-	-	2,106
2010	1,627	2	3	-	-	-	1,632
2009	567	10	11	-	-	-	588
2008	1,407	49	2	-	-	-	1,458
2007	430	19	109	-	-	-	558
2006	1,070	22	-	-	-	-	1,092

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Operating Activity
Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Production Department										
Service Orders										
Preventive Maintenance:										
-- Work Orders Completed	8.769	16,896	16,338	15,012	15,130	16,580	15,364	15,427	11,988	11,194
Corrective Maintenance:										
-- Work Orders Completed	155	272	433	251	237	175	281	210	242	161
Water Quality										
Complaints	73	272	287	179	214	131	137	174	30	1
Inquiries	130	182	28	88	90	114	159	171	110	159
Distribution Department										
Service Orders										
Main Leaks	88	96	92	87	76	82	64	77	61	70
Service Line Leaks	222	217	171	147	199	232	268	242	125	101
Locate & Expose	235	401	311	375	507	320	332	253	353	253
Determine Responsibility	1,101	1,852	1,512	1,785	1,346	1,557	1,770	1,891	839	630
Water Main Shutdown:										
-- Emergency	46	67	69	99	85	83	99	110	86	27
-- Scheduled	13	91	90	84	76	125	160	170	100	32
Preventive Maintenance Program										
Fire Hydrants Inspected	-	6,038	45	-	-	437	1,248	1,237	1,255	1,597
Fire Hydrant Valves Inspected	-	-	-	-	-	-	-	-	1,202	1,508
Fire Hydrants Valves Exercised	-	-	-	-	-	-	-	-	975	1,385
Valves Inspected	-	1,138	5,287	2,602	1,235	442	1,406	923	898	434
Underground Service Alert										
Reviewed	11,514	13,291	15,624	13,184	13,513	14,114	15,100	16,058	14,614	18,529
Marked	3,683	3,683	6,232	5,034	4,267	5,344	4,848	5,233	4,369	5,074
After Hours Activity										
Calls Received	888	1,117	966	857	810	925	1,012	1,012	1,024	1,145
Calls Responded	406	472	358	318	322	437	433	367	338	605
Average Call Time Hours	-	-	-	-	-	-	-	-	2	2
Overtime Hours	-	-	-	-	-	-	-	-	880	1,034

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Operating Activity, continued
Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Field Services Department										
Meters										
Preventive Maintenance – Meters Tested	2	155	190	197	142	53	150	135	57	32
Preventive Maintenance – Meters Replaced	104	150	166	258	804	268	189	644	143	117
Preventive Maintenance – Meter Re-Builds	-	-	-	-	-	-	-	-	67	43
Customer Service										
Shut Off (non-payment)	1,652	3,841	4,115	3,221	2,940	3,127	2,158	2,066	2,561	2,051
Restore Service	1,032	1,708	2,552	2,272	2,004	1,799	1,976	1,451	2,100	1,801
Customer Pressure Inquiries	-	-	-	-	-	-	-	-	121	113
Field Operations Department										
Service Requests Generated	965	12,921	17,804	17,963	15,761	21,221	23,026	18,641	22,736	24,204
Work Orders Generated	451	7,785	5,338	9,972	12,187	15,625	12,382	14,460	11,939	10,898

Source: District.

Sacramento Suburban Water District
Statistical Information (Unaudited)
Full-Time Equivalent Employees
Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	8	8	8	8	8	8	8	8	10	10
Customer Service	5	6	6	6	6	6	6	6	5	5
Engineering	9	9	9	9	9	9	9	10	10	10
Production and Water Treatment	10	13	14	14	14	15	15	13	15	15
Distribution	21	23	23	23	23	23	23	22	22	22
Total	53	59	60	60	60	61	61	59	62	62

Source: District.

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

To the Board of Directors
Sacramento Suburban Water District
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sacramento Suburban Water District (the District), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 18, 2016.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Sacramento Suburban Water District

Compliance and Other Matters

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

Purpose of this Report

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

Richardson & Company, LLP

May 18, 2016

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SACRAMENTO SUBURBAN WATER DISTRICT

Agenda Item: 2

Date: May 18, 2016

Subject: Public Finance and the District Budgeting Process

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:
Review District budget process. Provide direction to satff.

Discussion:
In November 2015, upon adoption of the 2016/17 budget, the Board directed staff ot bring back to the Board the structure and design of the District budget and its development process as well as to consider other theoretical forms of public utility budgeting. Prior to reviewing the District's budget design and process with the full Board, staff seeks Committee review and direction. It is intended to bring this item to the Board for review and discussion at the June Board meeting.

SACRAMENTO SUBURBAN WATER DISTRICT

PUBLIC FINANCE AND THE DISTRICT BUDGETING PROCESS

MAY 26, 2016

PUBLIC BUDGETING METHODOLOGIES

- Incremental Budgeting (last year is starting point)
- Program Budget (budget by program, not department)
- Target-Based Budgeting (total $ amount set)
- Zero-Based Budgeting (select a service level)

- District Utilizes:
- Traditional Budget (follows Organization Chart)
- Zero-Line Item Budgeting (rebuilt from ground up)

DISTRICT BUDGET DESIGN

- The District's Budget is Designed as a:
- "Structurally Balanced Budget"
  - Financial sustainability for multiple years into the future
  - Recurring revenues equal recurring expenditures
  - Nonrecurring revenues and expenditures segregated
  - Carryovers of unspent funds are identified and managed
  - Reserve level established to manage risk and cash flows
- "Traditional Budget"
  - Budgets are established at the department level
  - Department managers have budget responsibility
  - Senior management has overall budget responsibility

SACRAMENTO SUBURBAN WATER DISTRICT

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DISTRICT BUDGET DESIGN, CONTINUED

- The District's Budget is Designed as a:
- "Zero-Line Item Budget"-
  - Budgets are set at the account level
  - All accounts are set to zero
  - Account level budgets are built up by each department manager
- "Balanced Budget"
  - Recurring revenues and expenses are intended to equal
  - Nonrecurring revenues and expenses separately identified
  - Carryover funds and reserves are managed in light of revenues, expenses, cash flows and risk

SACRAMENTO SUBURBAN WATER DISTRICT

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ANNUAL BUDGET DEVELOPMENT

- Production/demand is estimated
- Revenue projected based on production/demand
- Cost of production determined – ground versus surface water
- Recurring account budgets are established
- Capital (CIP) projects prioritized; current year costs estimated
- Nonrecurring revenues and expenses identified
- Prior year carryovers added
- Reserve amounts identified and managed

SACRAMENTO SUBURBAN

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ANNUAL BUDGET DEVELOPMENT, CONTINUED

- Initial presentation to Finance and Audit Committee
  - Staff re-reviews and makes necessary changes
- Board Workshop
  - Staff re-reviews and makes necessary changes
- Board Meeting – next draft or adoption

- Must be adopted prior to year-end

SACRAMENTO SUBURBAN

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Thank you.

Questions?

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SACRAMENTO SUBURBAN WATER DISTRICT

Agenda Item: 3

Date: May 18, 2016

Subject: 2017/18 Budget Preparation Timeline

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:
Recommend the proposed 2017/18 Budget[1] timeline to the full Board for approval at the June regularly scheduled meeting of the Board of Directors or provide direction to staff.

Discussion:
Each year at the inception of the annual budget process, staff prepares a timeline of the needed budget preparation tasks, meetings and their corresponding due dates. The proposed budget preparation schedule for the 2017/18 budget is attached. The timeline presumes adoption of the Budget in October, ahead of the November elections. This schedule also provides flexibility to ensure an adopted budget is in place before the Holiday season.

[1] The Budget is comprised of the Operations and Maintenance Budget (O&M), Operating Capital Budget (OCB), and the Capital Improvement Program Budget (CIP).

SACRAMENTO SUBURBAN WATER DISTRICT

Date: May 18, 2017

Subject: 2017/18 Budget Preparation Timeline

Staff Contact: Daniel A. Bills, Finance Director

Below is the proposed schedule for preparation of the 2017 budget. The necessary preparation tasks and their corresponding due dates are detailed below. Please note the schedule presumes adoption of the Budget in October.

Meeting	Purpose	Due	Date	Time
Kick-Off Meeting	Walnut Staff Training	Monday	July 11	Noon
Kick-Off Meeting	Marconi Staff Training	Tuesday	July 12	Noon
Board Meeting	Approve Schedule	Monday	July 18	6:30 pm
Finance Committee	Review Assumptions	Friday	July 29	2:00 pm
1st Draft Due	Send to Finance Dept	Friday	August 5	COB
AGM/FD	Review 1st Draft	Friday	August 12	1:30 pm
Budget Preparers	Informed of Changes	Monday	August 15	Noon
Board Meeting	Status Report	Monday	August 15	6:30 pm
2nd Draft Due	Send to Finance Dept	Friday	August 19	COB
Ex Comm Review	Review 2nd Draft	Wednesday	August 24	10:00 am
Budget Preparers	Informed of Changes	Friday	August 26	COB
3rd Draft Due	Send to Finance Dept	Wednesday	August 31	COB
AGM/FD	Review 3rd Draft	Friday	September 2	1:00 pm
Board Workshop	Budget Presentation	Friday	September 9	6:00 pm
Board Meeting	Budget Presentation	Monday	September 19	6:30 pm
Ex Comm Review	Review Final Draft	Monday	September 26	11:00 am
Board Meeting	Approve Final Budget	Monday	October 17	6:30 pm
Budget Preparers	Final Budgets Provided	Tuesday	October 18	COB

AGM – Assistant General Manager
COB – Close of business
FD – Finance Director

(Note: the budget is comprised of the Operations and Maintenance Budget (O&M), Operating Capital Budget (OCB), and the Capital Improvement Program Budget (CIP)).

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SACRAMENTO SUBURBAN WATER DISTRICT

Agenda Item: 4

Date: May 18, 2016

Subject: Set Date for Next Committee Meeting

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:
Set the date of Friday, June 10th at 10:00 a.m. for the next Finance and Audit Committee meeting.

Discussion:
In December 2015, as part of the discussion on the scheduled January 2016 four-percent rate increase and due to uncertainty related to 2016 hydrological conditions, the Board requested that potential amendments to the 2016 budget, if any, be brought before the Board in June for consideration. Staff has prepared a revised budget with options for the Board to consider adopting. Staff desires Committee review of the draft amended budget prior to the June Board meeting.