

# **Agenda**

## **Sacramento Suburban Water District Finance and Audit Committee**

3701 Marconi Avenue, Suite 100  
Sacramento, CA 95821

Tuesday, April 4, 2017  
3:00 p.m.

Where appropriate or deemed necessary, the Board 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 all or a majority of the members of the Board of Directors 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 Board concerning an agenda item either before or during the Board'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 President 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**

### **Announcements**

### **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. 2016 Comprehensive Annual Financial Report and Annual Audit**  
*Review the 2016 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. Finance and Audit Committee Mission Statement and Charter**  
*Review mission statement and charter. Consider changes and recommend approval to the Board of Directors.*
  
- 3. Analysis of Miscellaneous Fees for Special Water Services**  
*Review and comment on analysis. Direct staff to update Regulation No. 3 in accordance with the analysis and recommend approval to the Board of Directors.*

**4. Customer Billing/Receipts Internal Control Procedures**

*Review and comment on proposed customer billing procedures resulting from auditor recommendations in their 2015 Management Letter. Direct staff as appropriate. Consider recommending approval to the Board of Directors.*

**Adjournment**

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**Upcoming Meetings:**

Monday, April 17, 2017 at 6:30 p.m., Regular Board Meeting  
Thursday, April 27, 2007 at 4:00 p.m. Facilities and Operations Committee Meeting

\*\*\*\*\*

I certify that the foregoing agenda for the April 4, 2017, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by March 31, 2017, 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.

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

SACRAMENTO SUBURBAN WATER DISTRICT

FINANCE AND AUDIT COMMITTEE  
AUDIT PRESENTATION AGENDA

April 4, 2017

Presentation by Richardson & Company, LLP of the results of the audit, including the following communications required by Generally Accepted Auditing Standards:

Reports issued

- Governance (required communications) letter (Exhibit 1)
- Management letter with recommendations (Exhibit 2)
- Auditor's opinion (Exhibit 4--CAFR)
- Report on internal control and compliance (Exhibit 4--CAFR)

Governance letter (Exhibit 1)

- Change in accounting principle to implement GASB No. 72
  - Disclosure of inputs used to determine fair value (CAFR page 25)

Accounting estimates

- Pension and OPEB liabilities
- Estimate of uncollectible A/R
- Interest on variable rate bonds
- Fair value of swaps
- Depreciable lives and methods used to depreciate cap assets

Audit adjustments

- No adjustments as a result of our audit
- Accounting records are clean
- No difficulties in performing the audit and no unusual accounting practices
- Additional procedures performed—no significant findings noted

Management letter (Exhibit 2)

- No internal control weaknesses
- Areas for improvement identified
  - Review procedures for detecting meter reading errors
  - Revise policy regarding billing adjustments made by ASM.
  - Recommendations to improve procedures and controls for customer billing/receipts

Independent auditor's report (Exhibit 4--CAFR pages 1 and 2)

- Unmodified (clean) opinion
- District prepares the financials—management responsibility
- Reference to adjustments to remove assets no longer on hand (\$472,583 reduction—page 23)

Internal Control and Compliance report (CAFR pages 72 to 73)

- No weaknesses in internal control
- Complied with laws, contracts material to financials



## Agenda Item: 1

**Date:** March 29, 2017

**Subject:** 2016 Comprehensive Annual Financial Report and Annual Audit

**Staff Contact:** Daniel A. Bills, Finance Director

### **Recommended Committee Action:**

Review the 2016 Comprehensive Annual Financial Report (CAFR) and related Auditor Letters as attached. Recommend approval to the Board of Directors.

### **Discussion:**

Staff has prepared the District's CAFR for the year-ended December 31, 2016. 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, the CAFR includes the Auditor's Report on Internal Controls as required under Government Auditing Standards (pages 72 and 73). Also, the auditors have provided two letters to the Board (Exhibits 1 and 2) wherein they discuss the results of their audit.

1. Governance Letter (Exhibit 1) – This letter is a required communication as designated under generally accepted auditing standards. The letter reports to the Board significant audit findings, if any, noted during the audit, estimates used by the District in preparing the CAFR, 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 were noted as a result of this additional testing.”
2. Management Letter (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 three items the District will want to note or make changes to in 2017 that will further strengthen District procedures.

3. Staff Response to the Management Letter (Exhibit 3)
4. The CAFR (Exhibit 4) is presented in three sections:
  - a) Introductory – Provides readers with background and the organization structural of the District.
  - b) Financial – Begins with the Auditors Opinion, followed by Management’s Discussion and Analysis of the financial results for 2016 and 2015, 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:**

\$40,440 – per Audit Engagement Letter with Richardson & Company, LLP - \$34,200 for the audit and \$6,240 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.

The annual financial report is a benefit to District customers as it demonstrates the District’s commitment to financial transparency.

# EXHIBIT 1



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

## GOVERNANCE LETTER

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, 2016, and have issued our report thereon dated March 29, 2017. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* 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. 72, *Fair Value Measurement and Application*, which requires disclosure of the types of inputs used to determine the fair value of investments and the valuation methods. This disclosure has been added to Note 3 of the financial statements. 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 two 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 13, 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 13 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 assumptions that were used to determine the amounts, as well as other required disclosures. Two required supplementary information schedules 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. Only one reclassification adjustment was made during the audit to reclassify pipe advance purchases from prepaid expenses to inventory.

#### 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 March 29, 2017.

#### 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 assurance 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 6 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 65 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 1 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.

*Richardson & Company, LLP*

March 29, 2017



## EXHIBIT 2



550 Howe Avenue, Suite 210  
Sacramento, California 95825

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

### MANAGEMENT LETTER

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, 2016, 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.

The following items were noted in our current year audit:

#### Meter Reading Discrepancies

The District generated a list of billing adjustments made during 2016 and we noted a number of them related to errors on the meter readings. We recommend that the District review its procedures and thresholds for review of exceptions to meter readings during the review of bills prior to them being sent to the customers.

#### Review of Billing Adjustments

The District's policy related to the review of billing adjustments made by the Administrative Service Manager states that adjustments over \$5,000 require approval. In our review of billing adjustments over \$5,000 made during 2016, we did not see where documentation of the approval was made. We recommend that the policy be clarified as to whether all or only certain types of adjustments require approval. In addition, consideration should be given to lowering the threshold for adjustments that require approval.

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.

\* \* \* \* \*

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.

*Richardson & Company, LLP*

March 29, 2017

# EXHIBIT 3



**To:** Finance and Audit Committee  
**From:** Daniel A. Bills, Finance Director  
**Date:** March 30, 2017  
**RE:** Response to Management Letter from Richardson & Company, LLP

The Auditors (Richardson & Company, LLP) have provided the District with recommendations to improve District procedures in their Management Letter. While the auditor's note that these recommendations are not in response to material weaknesses or significant internal control deficiencies, staff, nevertheless, concurs with the recommendations and intends on implementing all of them in 2017 by amending or adding to District procedures as follows:

## **1. Meter Reading Discrepancies**

### *Auditor Comment:*

*The District generated a list of billing adjustments made during 2016 and we noted a number of them related to errors on the meter readings. We recommend that the District review its procedures and thresholds for review of exceptions to meter readings during the review of bills prior to them being sent to the customers.*

### Staff Response:

The District's Field Operations Coordinator checks meter reads and reviews them for errors. However, when initial reads are entered incorrectly by the Field Operations Coordinator, the errors are not always caught. Staff has developed a "High/Low Query" that is to be run and reviewed for each billing cycle that should catch these and other meter read errors.

## **2. Review of Billing Adjustments**

### *Auditor Comment:*

*The District's policy related to the review of billing adjustments made by the customer service manager states that adjustments over \$5,000 require approval. In our review of billing adjustments over \$5,000 made during 2016, we did not see where documentation of the approval was made. We recommend that the policy be clarified as to whether all or only certain types of adjustments require approval. In addition, consideration should be given to lowering the threshold for adjustments that require approval.*

### Staff Response:

Staff will change the District's procedure and require that all billing adjustments over \$5,000 be signed-off by the Assistant General Manager.

### **3. 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 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 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 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 review by separate staff.*

5. *An update to the Regulations and new procedures for billing write-offs and billing adjustments should be developed. This Regulation update and procedures 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.*

**Staff Response:**

These recommendations regarding customer billing and receipt controls were recommended by the auditors in 2016. During 2016, staff did address certain recommendations, such as a secondary review of adjustments and established a billing analytical review report that is reviewed each billing cycle. However, a formal procedure has not been established. Therefore, the District has reached out to the CPA firm of James Marta & Company to develop an initial set of procedures the District can use as a basis to develop a formal customer billing and receipts procedure from. See Agenda Item 4, for a draft report from James Marta & Company.


EXHIBIT 4

# **Sacramento Suburban Water District**

## **Sacramento, CA**

# **Comprehensive Annual Financial Report**

For the Fiscal Years Ended December 31, 2016 and 2015



**SACRAMENTO  
SUBURBAN  
WATER  
DISTRICT**

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# **Comprehensive Annual Financial Report**

**For The Fiscal Years Ended December 31, 2016 and 2015**



**Sacramento Suburban Water District**

**Sacramento, California**

**Prepared by:**

**The Finance Department**

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# **Introductory Section**

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March 29, 2017

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, 2016 and 2015. 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, 2016 and 2015 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, 2016 and 2015 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

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: assuring a safe and reliable supply of high quality water in an environmentally responsible and sustainable manner for District customers; planning, constructing, operating and maintaining the District water system facilities embracing sustainable practices to provide reliable delivery of high quality water; assuring superior customer service; ensuring effective and efficient management and public reporting of all District financial processes; and providing 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 Sacramento County, north of the American River and serves a large suburban area including portions of Citrus Heights, Carmichael, North Highlands, City of Sacramento (City), and Antelope, as well as McClellan Business Park (formerly McClellan Air Force Base). The District serves water to a population of approximately 174,500 through 46,650 connections, is divided into four service areas. The North Service Area (NSA), the Capehart Service Area, McClellan Business Park Service Area (MBPSA), and the South Service Area (SSA).

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 the State's Department of Water Resources projections, the District's population is expected to be 190,700 in 2031, when the District is expected to be fully built out having 50,250 connections. 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, including storage, pump stations and interconnections, has roughly 678 miles of pipeline that range in size from 48-inch transmission mains down to 4-inch distribution mains. 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 has recently gone through five consecutive years of drought. While 2017 is shaping up to be a strong year for surface water supplies, the District continues to enjoy an ample supply of groundwater 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 demand declined by 15.5% in 2015 compared to calendar year 2014 and 15.6% in 2014 compared to calendar year 2013. In 2016, as the drought alleviated to some degree and surface water became available, water demand increased by 6.6% relative to calendar year 2015.

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 1997, 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 83 wells (73 active). All of the wells pump directly into the distribution system and range between 200 and 1,300 feet deep. The wells of the District are located in the North American Sub basin which is part of the Sacramento Valley Groundwater Basin. 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 Sub 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 groundwater pumping capacity from the District’s wells is 84,000 gallons per minute 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 of this target are subtracted from the District’s “Exchangeable Water Balance” (banked groundwater). Amounts of groundwater pumped below this target that are replaced with purchased surface water are added to the District’s “Exchangeable Water Balance” with the District credited for in the in-lieu groundwater banked. As of December 31, 2016, the District has banked 199,408 acre-feet of groundwater 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, 83 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 sources of non-operating revenue come primarily from state and federal capital grants, developer contributions, rental income and investment income.

## **Local Economy<sup>1</sup>**

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 2010-2015, the population of Sacramento County grew at an annual average rate of 1.0%. Employment in the County consists of a labor force of 697,100 with an unemployment rate of 5.4% in 2016 down from 6.0% in 2015. Employment and population are projected to grow by an average 1.3% and 1.1% per annum, respectively, over the next five years in the County.

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<sup>1</sup> Source: State of California, Department of Transportation, Socio Economic Files, Sacramento County Economic Forecast.

The County's economy is broadly based. Government, professional and business services are the largest sectors of employment, while education, healthcare, wholesale and retail trade, leisure and hospitality follow. Because it contains the state capital, the County's economy is highly influenced by the public sector. Government jobs account for almost 26% of total employment. Healthcare providers such as UC Davis Health Systems, Sutter Health, Kaiser Permanente 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, followed by 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, the District has dedicated significant resources to develop a comprehensive infrastructure assessment and has established 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. To minimize dependency on debt financing, the District strives to fund annual renewal and replacement capital projects from rates. The District intends to manage itself to exceed the minimum 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

District 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 is designed to ensure 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 also 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 include regional efforts regarding water supply and quality, including water conservation and metering. Selected from the recently developed asset management plans, the 2017 budget calls for certain capital improvement projects totaling \$17.0 million. Major projects include: new transmission mains totaling \$0.8 million; well replacements and rehabilitation of \$2.0 million; distribution main replacements and improvements of \$9.9 million; and water meter installations and replacements totaling \$2.7 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, 2015. 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, 2015**

Executive Director/CEO

# Principal District Officials

## Board of Directors - Elected Officials

<b>Title</b>	<b>Name</b>	<b>Division</b>	<b>Current Term</b>
President	Robert P. Wichert	Division 3	12/2014-12/2018
Vice President	Craig M. Locke	Division 5	12/2014-12/2018
Director	David A. Jones	Division 1	12/2016-12/2020
Director	Neil W. Schild	Division 2	12/2016-12/2020
Director	Kevin M. Thomas	Division 4	12/2014-12/2018

## Staff - Appointed Officials

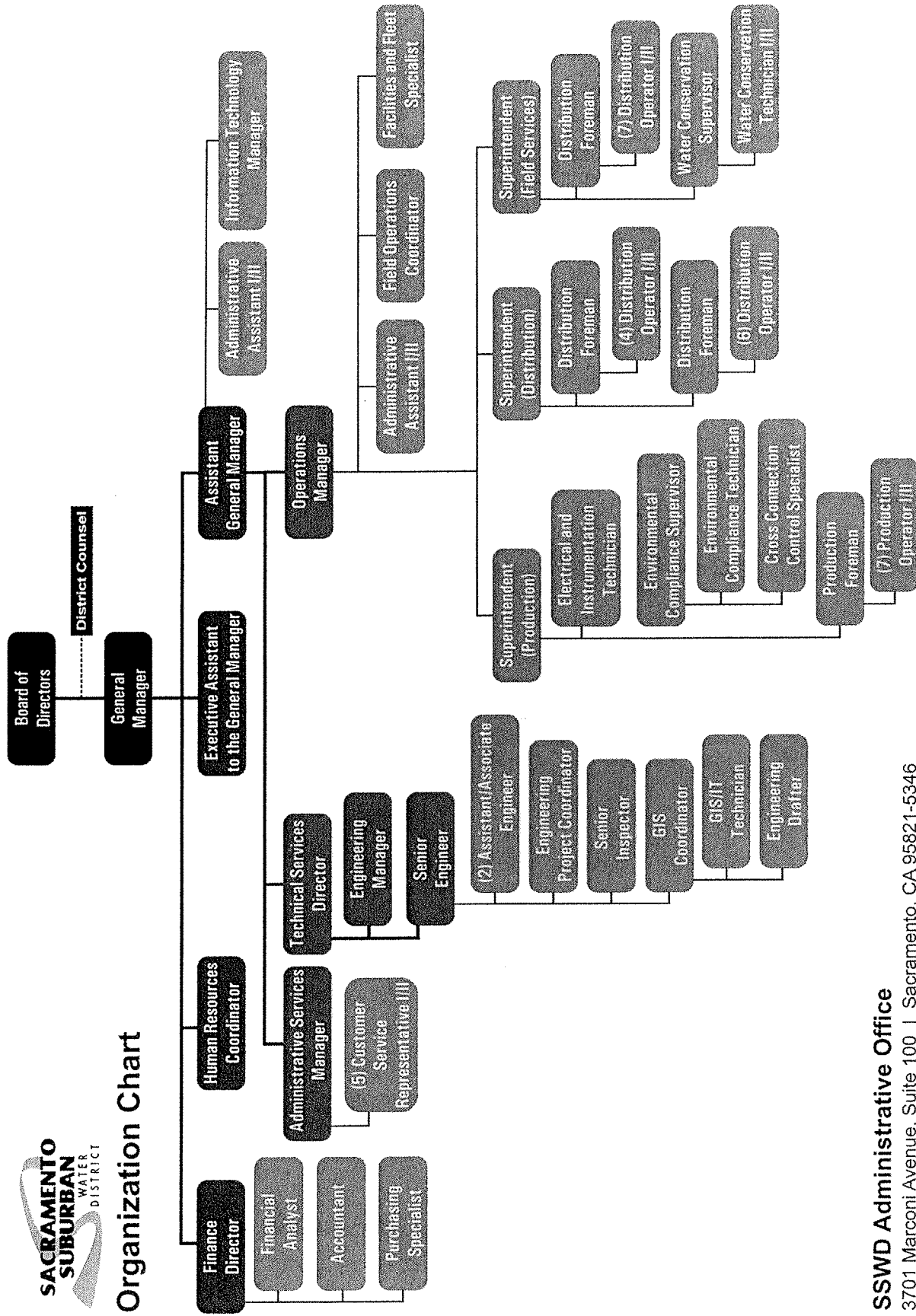
<b>Title</b>	<b>Name</b>
General Manager and Secretary	Robert S. Roscoe
Finance Director and District Treasurer	Daniel A. Bills
District Counsel	Bartkiewicz, Kronick & Shanahan, Joshua M. Horowitz

## Additional Key Management Staff

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

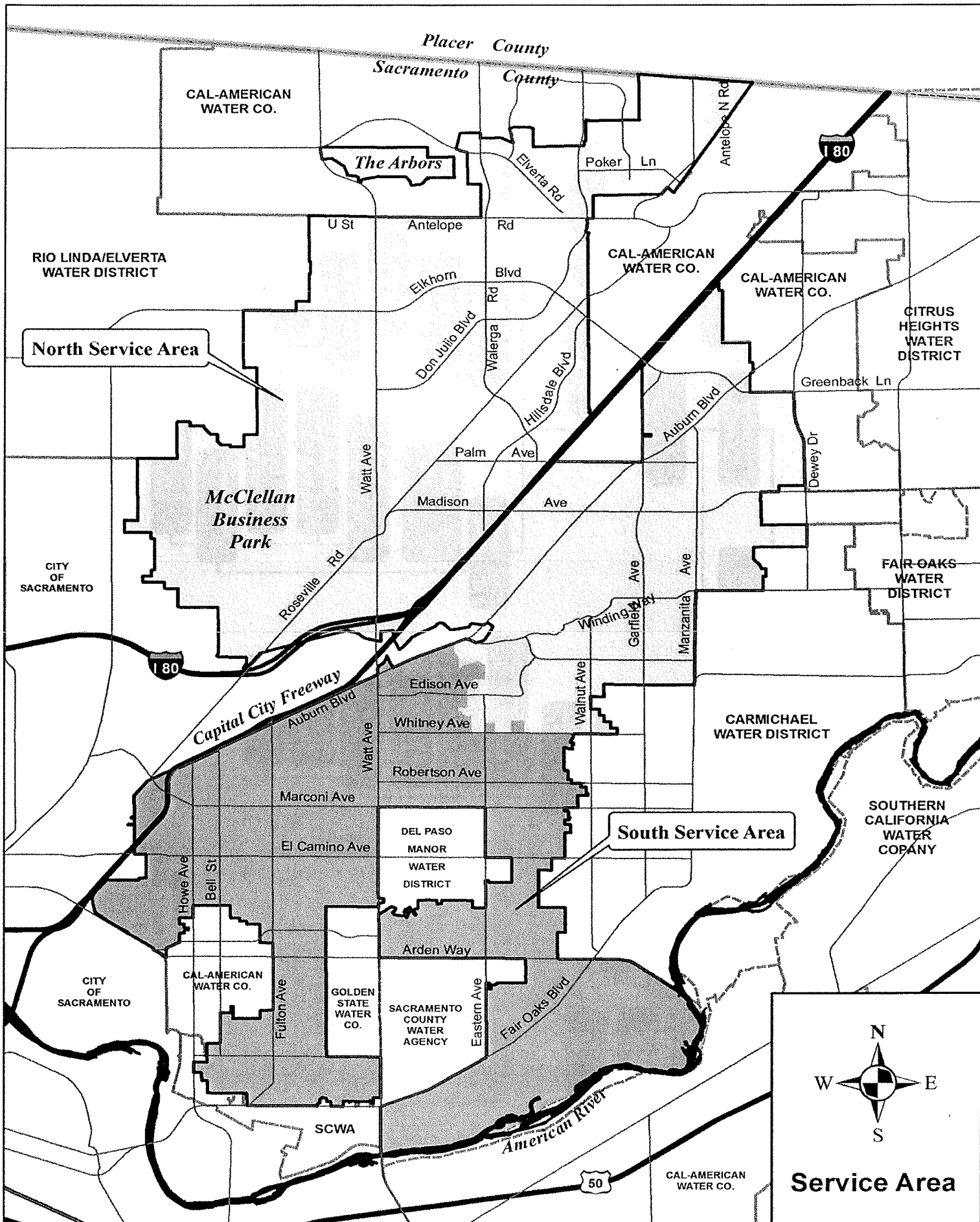


# Organization Chart



## SSWD Administrative Office

3701 Marconi Avenue, Suite 100 | Sacramento, CA 95821-5346  
 Phone: 916.972.7171 | Fax: 916.972.7639  
 Office Hours: 8:00 a.m. to 4:30 p.m. Monday-Friday  
 Web site: sswd.org





## **Financial Section**



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, 2016 and 2015, 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, 2016 and 2015 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## **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, 2015 and change in net position for 2015 to correct these errors.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the Schedule of Funding Progress – Other Postemployment Benefits and the Schedule of Proportionate Share of Net Pension Obligation 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 District's 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 March 29, 2017, 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*

March 29, 2017

**Sacramento Suburban Water District  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended December 31, 2016 and 2015**

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, 2016 and 2015. 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 2016, 2015, and 2014, are highlighted below.

#### **Water Activities and Highlights**

- California has recently gone through five consecutive years of drought. While 2017 is shaping up to be a strong year for surface water supplies, the District continues to enjoy an ample supply of groundwater 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 demand declined by 15.5% in 2015 compared to calendar year 2014 and 15.6% in 2014 compared to calendar year 2013. In 2016, as the drought alleviated to some degree and surface water became available, water demand increased by 6.6% relative to calendar year 2015. Accordingly, water consumption sales increased by \$1.4 million (15 percent) in 2016 compared to 2015, but declined by \$1.2 million (11 percent) in 2015 compared to 2014 and declined \$1.6 million (13 percent) in 2014 compared to 2013. Also effecting the water consumption sales changes for each of the past three years was a 4.0 percent rate increase effective January 1 of each year.
- For the period ended December 31, 2016, the District supplied 29,312 acre-feet of water to 46,650 retail connections, compared to 27,502 acre-feet of water to 46,414 connections in 2014, and 32,561 acre-feet of water to 46,112 connections in 2014. In 2016, the water supplied included 11,400 acre-feet of surface water, while for 2015 and 2014 effectively all of the water supplied was groundwater.
- The District's groundwater and surface water sources are sufficient for its current and future needs. 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 in early summer.

**Sacramento Suburban Water District  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended December 31, 2016 and 2015**

**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 to meet state law requirements as discussed more fully below. In 2016, approximately 7.8 miles of new pipeline and appurtenances were installed at a cost of \$9.7 million, compared to 6.5 miles in 2015 and 10.6 miles in 2014 at costs of \$12.0 million and \$10.5 million, respectively. Total expenditures for all capital projects in 2016, 2015, and 2014 were \$17.4 million, \$18.6 million and \$20.2 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 2016, 2,101 new meters were installed, compared to 1,791 in 2015 and 1,984 in 2014. As of December 31, 2016, approximately 83 percent of the District's connections are on water meters compared to 78 percent at the end of 2015 and 75 percent at the end of 2014. 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, 2016 and 2015. 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.

**Sacramento Suburban Water District  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended December 31, 2016 and 2015**

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)

<b>Assets</b>	<b>2016</b>	<b>Restated 2015</b>	<b>Change</b>	<b>Restated 2014</b>	<b>Change</b>
Current assets	\$ 7,944	\$ 7,258	\$ 686	\$ 4,611	\$ 2,647
Non-current assets	38,165	40,702	(2,537)	43,456	(2,754)
Capital assets, net	286,707	279,378	7,329	270,183	9,195
<b>Total assets</b>	<b>332,816</b>	<b>327,338</b>	<b>5,478</b>	<b>318,250</b>	<b>9,088</b>
<b>Deferred outflows</b>	<b>9,400</b>	<b>9,276</b>	<b>124</b>	<b>9,743</b>	<b>(467)</b>
<b>Liabilities</b>					
Current liabilities	9,314	8,583	731	7,935	648
Non-current liabilities	98,484	101,940	(3,456)	105,793	(3,853)
<b>Total liabilities</b>	<b>107,798</b>	<b>110,523</b>	<b>(2,725)</b>	<b>113,728</b>	<b>(3,205)</b>
<b>Deferred inflows</b>	<b>558</b>	<b>799</b>	<b>(241)</b>	<b>1,819</b>	<b>(1,020)</b>
<b>Net position</b>					
Net investment in capital assets	199,526	188,248	11,278	175,262	12,986
Restricted for debt service fund	3,540	3,523	17	3,540	(17)
Unrestricted	30,794	33,521	(2,727)	33,644	(123)
<b>Total net position</b>	<b>\$ 233,860</b>	<b>\$ 225,292</b>	<b>\$ 8,568</b>	<b>\$ 212,446</b>	<b>\$ 12,846</b>

Referring to the table above, total assets increased by \$5.5 million compared to December 31, 2015, to a total of \$332.8 million as of December 31, 2016. 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 \$0.7 million in 2016 compared to \$2.6 million in 2015. The 2016 increase was primarily due to the liquidation of \$3.0 million of investments during the year (investments are classified as non-current assets) less a \$0.5 million decrease in receivables resulting from payments received from a neighboring water district on a joint capital project. The 2015 increase was primarily due to the liquidation of \$3.2 million of investments during the year and a \$1.1 million increase in receivables resulting from a joint capital project with a neighboring water district. In addition, since 2010 current assets have generally decreased due to actions taken by the Board of Directors to reduce District cash reserve levels by adopting annual budgets where anticipated expenses exceed expected revenues.

Non-current assets decreased by \$2.5 million in 2016, compared to a decrease of \$2.8 million in 2015. The decrease in 2016 and 2015 is primarily attributable to the liquidation of \$3.0 million and \$3.2 million,

**Sacramento Suburban Water District  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended December 31, 2016 and 2015**

respectively, in investments needed for operations as discussed above. 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 loss of \$0.2 million as of December 31, 2016 compared to an unrealized gain of \$0.1 million as of December 31, 2015.

Capital assets, net, increased \$7.3 million in 2016 due primarily to the construction and replacement of a portion (7.8 miles) of the District's transmission and distribution system, the addition of water infrastructure appurtenances such as fire hydrants, pressure reduction valves and water valves, and the installation of 2,101 new water meters. Several other capital asset construction projects are in various stages of completion with costs incurred as of December 31, 2016 amounting to \$4.3 million (see Note 6).

As of December 31, 2016 and 2015, deferred outflows of resources primarily include deferred gains and losses on advance debt refundings as well as the recognition of pension expense in accordance with the provisions of Government Accounting Standards Board (GASB) Statements No. 68 and 71.

Total liabilities decreased by \$2.7 million to \$107.8 million as of December 31, 2016. The decrease in 2016 primarily reflects expected decreases in the amount of debt outstanding due to scheduled principal payments of \$3.9 million. Similarly, the \$3.2 million decrease in 2015 primarily reflects scheduled debt principal payments of \$3.8 million.

Non-current liabilities - As part of its debt management strategy, the \$85.6 million debt principal outstanding as of December 31, 2016 includes both fixed-rate debt - \$43.6 million, and variable-rate debt - \$42.0 million (as of December 31, 2015 and 2014, the District had debt principal outstanding of \$89.6 million and \$93.4 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, 2016, 2015 and 2014. 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 \$5.3 million, and is reported as a component of long-term debt in the Statements of Net Position. As of December 31, 2016, the negative fair market value of the swap decreased from negative \$7.5 million as of December 31, 2015 to negative \$6.7 million. Accordingly, the fair market value of the "on market" component of the swap, reported as a deferred inflow of resources and a noncurrent asset was \$14,266 as of December 31, 2016. As of December 31, 2015, the fair market value of the swap was reported as a deferred outflow of resources and a noncurrent liability in the amount of \$0.8 million. The imputed borrowing "off-market" portion of the swap, which is amortized over the life of the swap, was \$5.3 million and \$5.6 million as of December 31, 2016 and 2015, respectively (see Note 8).

The District realized an overall increase in net position of \$8.5 million for the year ended December 31, 2016, compared to \$12.8 million and \$11.8 million for the years ended December 31, 2015 and 2014, respectively. The components of net position as of December 31, 2016 are:

- The largest component of District net position is the District's net investment in capital assets which increased by \$11.3 million to \$199.5 million as of December 31, 2016, 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

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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 2016, 2015 and 2014, the District showed a positive balance in its unrestricted net position of \$30.8 million, \$33.5 million, and \$33.6 million, respectively. The decrease of \$2.8 million in the unrestricted net position for 2016 reflects the District's commitment to replace its aging infrastructure and the impact of reduced revenues due to the conservation efforts of District customers in response to the severe drought in California.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
(Dollars in Thousands)

	2016	Restated 2015	Change	Restated 2014	Change
<b>Revenues</b>					
Operating revenues	\$ 41,083	\$ 38,690	\$ 2,393	\$ 38,930	\$ (240)
Rental revenue	261	250	11	286	(36)
Interest and investment revenue	558	458	100	548	(90)
Grant revenue pass-through to sub recipients	764	369	395	948	(579)
Other non-operating revenues	18	114	(96)	107	7
<b>Total revenues</b>	42,684	39,881	2,803	40,819	(938)
<b>Expenses</b>					
Operating expenses	19,846	16,854	2,992	15,962	892
Depreciation and amortization	11,808	11,229	579	10,812	417
Interest expense	3,561	3,633	(72)	3,802	(169)
Sub recipient grant expense	764	369	395	948	(579)
Other non-operating expenses	16	-	16	-	-
<b>Total expenses</b>	35,995	32,085	3,910	31,524	561
<b>Net revenue before capital contributions</b>	6,689	7,796	(1,107)	9,295	(1,499)
<b>Capital contributions</b>	1,879	5,049	(3,170)	2,455	2,594
<b>Change in net position</b>	8,568	12,845	(4,277)	11,750	1,095
<b>Net position, beginning of year</b>	225,292	212,447	12,845	201,169	11,278
Restatement	-	-	-	(472)	472
<b>Net position, end of year</b>	\$ 233,860	\$ 225,292	\$ 8,568	\$ 212,447	\$ 12,845

From the table above it can be seen that the District's net position increased by \$8.6 million for the period ended December 31, 2016 compared to \$12.8 million for 2015 and \$11.8 million in 2014. The increases result from a variety of factors as described more fully below.



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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 increased by \$2.4 million (6.2 percent) compared to the year ended December 31, 2015, primarily due to the increase in retail water consumption sales of \$1.4 million as retail water production was up 6.6 percent in 2016 as described more fully above in the section above entitled "Water Activities and Highlights." In addition, a 4.0 percent general water rate increase was effective for all of 2016. In 2015, operating revenues decreased by \$0.2 million as retail water production was down 15.8 percent due primarily to the effects of the continued drought in California mitigated somewhat by a 4.0 percent general water rate increase that was in effect 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)

	2016	2015	Change	2014	Change
<b>Operating Revenues</b>					
Water consumption sales	\$ 11,053	\$ 9,644	\$ 1,409	\$ 10,827	\$ (1,183)
Water service charge	6,349	6,402	(53)	6,306	96
Capital facilities charge	22,575	21,646	929	20,678	968
Wheeling water charge	167	6	161	6	-
Other charges for services	939	992	(53)	1,113	(121)
<b>Total operating revenues</b>	<b>\$ 41,083</b>	<b>\$ 38,690</b>	<b>\$ 2,393</b>	<b>\$ 38,930</b>	<b>\$ (240)</b>

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, 2016, 2015, and 2014 was 1.43 percent, 1.32 percent, and 1.02 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 2016 and 2015 was 0.97 percent and 0.76 percent, respectively.

Capital Income – The District receives various types of income from capital contributions, such as facility development charges, developer contributions and grant income. Regarding grant income, in the years ended December 31, 2016, 2015 and 2014, the District received \$0.4 million, \$0.4 million and \$-0-, 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.

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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 2016, the fair market value of such donated assets was \$1.2 million, compared to \$1.2 million in 2015 and \$1.9 million in 2014.

**Operating Expenses**

(Dollars in Thousands)

	2016	2015	Change	2014	Change
<b>Operating Expenses</b>					
Source of supply	\$ 2,471	\$ 57	\$ 2,414	\$ 67	\$ (10)
Pumping	4,852	5,124	(272)	4,631	493
Transmission and distribution	3,973	3,621	352	3,643	(22)
Water conservation	587	773	(186)	399	374
Customer accounts	1,145	1,159	(14)	1,122	37
Administrative and general	6,818	6,120	698	6,100	20
<b>Total operating expenses</b>	<b>\$ 19,846</b>	<b>\$ 16,854</b>	<b>\$ 2,992</b>	<b>\$ 15,962</b>	<b>\$ 892</b>

Operating expenses are primarily comprised of purchased treated surface water, electrical and chemical treatment costs of producing potable 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 2016 by \$3.0 million (18.0 percent) relative to 2015, primarily due to the purchase of treated surface water that was available in 2016. In addition pension expense increased to \$1.0 million in 2016 up from \$0.4 million in 2015. In 2015, operating expenses increased by \$0.9 million (5.6 percent) relative to 2014, primarily due to increased pumping costs as five major well rehabilitation projects occurred in 2015.

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 \$0.1 million and \$0.2 million in 2016 relative to 2015 and 2015 relative to 2014, respectively, 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.

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**Capital Asset Administration**

(Dollars in Thousands)

**Changes in capital asset amounts for 2016 were as follows:**

	<b>Restated Balance 2015</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balance 2016</b>
<b>Capital assets:</b>				
Non-depreciable assets	\$ 10,180	\$ 17,939	\$ (18,357)	\$ 9,761
Depreciable & amortizable assets	416,875	19,568	(537)	435,906
Accumulated depreciation & amortization	(147,677)	(11,807)	524	(158,960)
<b>Total capital assets, net</b>	<b>\$ 279,378</b>	<b>\$ 25,700</b>	<b>\$ (18,370)</b>	<b>\$ 286,707</b>

**Changes in capital asset amounts for 2015 were as follows:**

	<b>Restated Balance 2014</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Restated Balance 2015</b>
<b>Capital assets:</b>				
Non-depreciable assets	\$ 9,754	\$ 19,168	\$ (18,742)	\$ 10,180
Depreciable & amortizable assets	396,906	19,998	(29)	416,875
Accumulated depreciation & amortization	(136,477)	(11,229)	29	(147,677)
<b>Total capital assets, net</b>	<b>\$ 270,183</b>	<b>\$ 27,937</b>	<b>\$ (18,742)</b>	<b>\$ 279,378</b>

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. 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, maximizing 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. Infrastructure assessment also includes assessing each asset's risk of failure and the attendant consequences to District operations. 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 both 2016 and 2015, the District received \$0.4 million in grant funds, compared to \$-0- in 2014. As of December 31, 2016, the District has \$1.0 million in financial obligations to contractors on its open construction contracts. See Note 16 for more information.

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Management's Discussion and Analysis (Unaudited)  
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**Long-Term Debt Administration**

(Dollars in Thousands)

Changes in long-term debt amounts for 2016 were as follows:

	Balance 2015	Additions	Retirements	Balance 2016
<b>Long-term debt:</b>				
2009A Certificates of participation	\$ 42,000	\$ -	\$ -	\$ 42,000
2009B Certificates of participation	26,045	-	(1,950)	24,095
2012A Revenue bond	21,515	-	(1,995)	19,520
Other (1)	9,534	-	(647)	8,887
<b>Total long-term debt</b>	<b>\$ 99,094</b>	<b>\$ -</b>	<b>\$ (4,592)</b>	<b>\$ 94,502</b>

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

	Balance 2014	Additions	Retirements	Balance 2015
<b>Long-term debt:</b>				
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
<b>Total long-term debt</b>	<b>\$ 103,529</b>	<b>\$ -</b>	<b>\$ (4,435)</b>	<b>\$ 99,094</b>

(1) Consists of unamortized long-term debt premiums and an imputed borrowing of 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 extended the term to June 2018 and reduced the annual facility fee by 12.5 basis points.

The District's debt covenants require that "Net Revenues" exceed 115% of annual debt service costs. For compliance history, please see the "Schedule of Net Revenues" in the Statistical Section of this CAFR. For both 2016 and 2015, 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.

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Management's Discussion and Analysis (Unaudited)  
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**2017 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 October 17, 2016, the Board approved a \$17.0 million Long-Term Capital budget, a \$1.1 million Intermediate-Term Capital budget and a \$21.3 million Operations and Maintenance budget for calendar year 2017. 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 2017 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, 2016 and 2015**

<b>Assets</b>	<b>2016</b>	<b>Restated 2015</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 3)	\$ 2,694,456	\$ 3,107,757
Restricted cash and cash equivalents (notes 3 and 4)	263	16,647
Receivables, net (note 5)	2,836,913	3,309,345
Inventory	1,869,899	484,947
Prepays and other current assets	543,061	339,374
Total current assets	7,944,592	7,258,070
<b>Noncurrent assets:</b>		
Investments (note 3)	34,619,873	37,206,113
Restricted investments (notes 3 and 4)	3,531,061	3,495,980
Fair value of interest rate swap (notes 1 and 8)	14,266	-
Capital assets not being depreciated (note 6)	9,760,642	10,178,827
Capital assets being depreciated and amortized, net (note 6)	276,946,215	269,198,601
Total noncurrent assets	324,872,057	320,079,521
Total assets	332,816,649	327,337,591
<b>Deferred outflows of resources</b>		
Deferred outflow of effective swap (notes 1 and 8)	-	765,224
Deferred amount on long-term debt refundings (note 1)	7,321,214	7,964,338
Deferred outflows from pensions (notes 2 and 13)	2,078,534	546,726
Total deferred outflows of resources	9,399,748	9,276,288
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	3,387,304	2,845,162
Accrued interest payable	465,592	427,131
Unearned revenue and customer deposits	701,140	666,051
Compensated absences, current portion (note 7)	700,000	700,000
Current portion of long-term debt (note 8)	4,060,000	3,945,000
Total current liabilities	9,314,036	8,583,344
<b>Noncurrent liabilities:</b>		
Compensated absences (note 7)	387,883	303,878
Net pension obligation (notes 2 and 13)	7,654,038	5,722,018
Long-term debt, net of current portion (note 8)	90,441,927	95,148,712
Fair value of interest rate swap (notes 1 and 8)	-	765,224
Total noncurrent liabilities	98,483,848	101,939,832
Total liabilities	107,797,884	110,523,176
<b>Deferred inflows of resources</b>		
Deferred inflow of effective swap (notes 1 and 8)	14,266	-
Deferred inflows from pension (notes 2 and 13)	543,791	798,534
Total deferred inflows of resources	558,057	798,534
<b>Net position</b>		
Net investment in capital assets (note 9)	199,526,144	188,248,054
Restricted for debt service reserve fund (note 10)	3,540,038	3,523,435
Unrestricted (note 11)	30,794,274	33,520,680
Total net position	\$ 233,860,456	\$ 225,292,169

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, 2016 and 2015**

	<b>2016</b>	<b>Restated 2015</b>
<b>Operating Revenues:</b>		
Water consumption sales	\$ 11,053,442	\$ 9,644,073
Water service charge	6,348,507	6,401,956
Capital facilities charge	22,574,500	21,646,182
Wheeling water charge	167,337	6,368
Other charges for services	939,242	991,840
Total operating revenues	41,083,028	38,690,419
<b>Operating Expenses:</b>		
Source of supply	2,470,806	56,993
Pumping	4,852,232	5,124,320
Transmission and distribution	3,972,951	3,620,756
Water conservation	587,395	772,713
Customer accounts	1,144,521	1,159,031
Administrative and general	6,818,371	6,120,590
Total operating expenses	19,846,276	16,854,403
Operating income before depreciation and amortization	21,236,752	21,836,016
Depreciation and amortization (note 6)	(11,807,580)	(11,228,545)
Operating income	9,429,172	10,607,471
<b>Nonoperating revenues (expenses):</b>		
Rental revenue	260,922	250,293
Interest and investment revenue	557,770	457,731
Interest expense	(3,560,697)	(3,633,089)
Other non-operating revenues	18,309	107,919
Grant revenue pass-through to subrecipients	763,754	369,443
Other non-operating expenses	(3,682)	(137)
Subrecipient grant expenses	(763,754)	(369,443)
Gain on disposal of capital assets, net	(12,688)	6,251
Total nonoperating revenues (expenses), net	(2,740,066)	(2,811,032)
Income before capital contributions	6,689,106	7,796,439
<b>Capital contributions:</b>		
Facility development charges	264,209	542,558
Developer capital contributions	1,216,369	1,203,638
Federal, state and local capital grants	398,603	413,879
Sale of pumping capacity	-	2,889,142
Total capital contributions	1,879,181	5,049,217
<b>Increase in net position</b>	8,568,287	12,845,656
Net position, as previously reported		212,919,096
Prior period adjustment (note 2)		(472,583)
Net position, beginning of year, as restated	225,292,169	212,446,513
<b>Net position, end of year</b>	\$ 233,860,456	\$ 225,292,169

See accompanying notes to the basic financial statements

**Sacramento Suburban Water District**  
**Statements of Cash Flows**  
**For The Years End December 31, 2016 and 2015**

	2016	2015
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 41,682,229	\$ 38,434,320
Cash paid to suppliers for goods and services	(16,032,524)	(11,426,564)
Cash paid to employees for services	(4,630,774)	(5,151,577)
Other nonoperating receipts	275,548	358,074
Net cash provided by operating activities	21,295,179	22,214,253
<b>Cash flows from non-capital financing activities:</b>		
Grant receipts	763,754	369,443
Pass-through to sub-recipients	(763,754)	(369,443)
Net cash provided by nonoperating financing activities	-	-
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of capital assets	(17,933,328)	(19,218,741)
Proceeds from disposal of capital assets	-	6,251
Principal payments on long-term debt	(3,945,000)	(3,795,000)
Interest payments on long-term debt	(3,202,562)	(3,344,699)
Principal payments on interest rate swap borrowing payable	(323,336)	(316,718)
Facility development charges received	231,881	510,230
Capital grants received	351,000	209,523
Sale of pumping capacity	-	2,315,725
Net cash used by capital and related financing activities	(24,821,345)	(23,633,427)
<b>Cash flows from investing activities:</b>		
Purchase of investment securities	(24,317,655)	(24,123,673)
Proceeds from sales and maturities of investment securities	26,833,799	26,947,450
Interest received on investment securities	580,337	374,225
Net cash provided (used) by investing activities	3,096,481	3,198,002
Net increase (decrease) in cash and cash equivalents	(429,684)	1,778,828
Cash and cash equivalents at beginning of year	3,124,404	1,345,576
<b>Cash and cash equivalents at end of year</b>	<b>\$ 2,694,719</b>	<b>\$ 3,124,404</b>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents	\$ 2,694,456	\$ 3,107,757
Restricted cash and cash equivalents	263	16,647
Total cash and cash equivalents	<b>\$ 2,694,719</b>	<b>\$ 3,124,404</b>

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, 2016 and 2015**

	2016	2015
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 9,429,172	\$ 10,607,471
<b>Adjustments to reconcile operating revenue to net cash provided by operating activities:</b>		
Depreciation and amortization	11,807,580	11,228,545
Bad debt expense	(6,472)	(85,818)
Other nonoperating receipts	275,548	358,074
Change in pension obligation and related deferred inflows (outflows)	145,469	(446,636)
<b>Changes in operating assets and liabilities</b>		
(Increase) decrease in operating assets:		
Accounts receivable	32,282	(189,757)
Other receivables	506,675	(941)
Inventory	(1,384,952)	85,917
Prepays and other current assets	(203,686)	113,897
Increase (decrease) in operating liabilities:		
Accounts payable	(2,075)	363,096
Unearned revenue	67,417	20,417
Accrued compensated absences	84,006	81,943
Accrued expenses	544,216	78,045
Total adjustments	11,866,007	11,606,782
Net cash provided by operating activities	\$ 21,295,179	\$ 22,214,253
<b>Noncash investing, capital and financing transactions:</b>		
Receipt of donated capital assets	\$ 1,216,369	\$ 1,203,638
Change in fair value of investments	(56,168)	188,147
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	779,490	(89,631)

See accompanying notes to the basic financial statements

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**(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 174,500 through 46,650 connections 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 Sacramento County, north of the American River and serves a large suburban area including portions of Citrus Heights, Carmichael, North Highlands, City of Sacramento, and Antelope, as well as 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 financial transactions and does not issue financial statements, therefore combining information is not presented.

**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, 2016 and 2015, 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](http://www.rwah2o.org), or by calling (916) 967-7692.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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**

Investments are reported in the accompanying Statements of Net Position at fair 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, changes in fair value, and any gains or losses realized upon the liquidation, maturity or sale 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 \$5,000. 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). Depreciation/amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

• Pipelines	80 years
• Reservoirs and Wells	25 to 40 years
• Water Meters	10 to 20 years
• Building and Building Improvements	10 to 40 years
• Vehicles and Equipment	5 to 10 years
• Furniture and Computers	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, 2016 or 2015.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016 and 2015, 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.

**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

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

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

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 \$30,794,274 and \$33,520,680 at December 31, 2016 and 2015, 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, 2016 and 2015, were \$7,321,214 and \$7,964,338, 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 \$-0- and \$765,224 at December 31, 2016 and 2015, 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 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 \$2,078,534 and \$546,726 at December 31, 2016 and 2015, will be amortized and recognized as pension expense over periods of five years or less.

The deferred inflows of resources related to pensions of \$543,791 and \$798,534 at December 31, 2016 and 2015, will be amortized and recognized as pension expense over periods of five years or less.



**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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 each comprising a monthly period. Estimated unbilled water sales revenue for consumption are accrued and recorded in the period the water was used. Capital facility charges, levied for capital asset projects and debt service payments, are applied to all District customers based on their respective service size connection. 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 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.

**Sacramento Suburban Water District  
Notes to the Basic Financial Statements, continued  
For the Years Ended December 31, 2016 and 2015**

**(2) Change in Accounting Principles, Restatement and Reclassifications**

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 2016 and 2015, certain capital assets that had been replaced in periods prior to 2015 or 2014 were identified in the District's financial records. As a result, capital assets being depreciated and amortized were reduced by \$444,022 in 2015, depreciation expense for 2015 was decreased and net position was increased by \$28,561, and total net position as of January 1, 2015 was decreased by \$472,583, as a result of this correction.

Certain amounts in 2015 have been reclassified to conform to the 2016 financial presentation. The reclassifications had no effect on the total net position or change in net position.

**(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, 2016 and 2015 are classified in the Statements of Net Position as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,694,456	\$ 3,107,757
Restricted cash and cash equivalents	263	16,647
Investments	34,619,873	37,206,113
Restricted investments	3,531,061	3,495,980
Total	<u>\$ 40,845,653</u>	<u>\$ 43,826,497</u>

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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(3) Cash, Cash Equivalents and Investments, continued**

Cash, cash equivalents and investments as of December 31, 2016 and 2015 by investment type are as follows:

	2016	2015
Cash on hand	\$ 4,250	\$ 4,250
Deposits with financial institutions	1,406,257	916,445
Total cash	<u>1,410,507</u>	<u>920,695</u>
California Local Agency Investment Fund (LAIF)	1,153,836	2,143,849
Money market mutual funds	130,113	43,213
Held by bond trustee:		
Restricted money market mutual funds	263	16,647
Total cash equivalents	<u>1,284,212</u>	<u>2,203,709</u>
Negotiable certificates of deposit	7,839,441	8,002,514
U.S. treasury notes/bonds	7,206,850	7,271,662
Federal agency securities	5,799,060	4,316,969
Municipal obligations	1,146,889	2,751,745
Corporate notes	8,401,104	11,136,924
Mortgage backed and asset backed securities	3,708,876	3,726,299
Supranationals	517,653	-
Held by bond trustee:		
Restricted Federal agency securities	3,531,061	3,495,980
Total investments	<u>38,150,934</u>	<u>40,702,093</u>
Total	<u>\$ 40,845,653</u>	<u>\$ 43,826,497</u>

***Fair Value Measurement***

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(3) Cash, Cash Equivalents and Investments, continued**

The District has the following recurring fair value measurements as of December 31, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Negotiable certificates of deposit	\$ 7,839,441	\$ -	\$ 4,087,475	\$ 3,751,966
U.S. treasury notes/bonds	7,206,850	7,206,850	-	-
Federal agency securities	5,799,060	-	5,799,060	-
Municipal obligations	1,146,889	-	1,146,889	-
Corporate notes	8,401,104	-	8,401,104	-
Mortgage backed and asset backed securities	3,708,876	-	3,708,876	-
Supranationals	517,653	-	517,653	-
Restricted Federal agency securities	3,531,061	-	3,531,061	-
<b>Total investments by fair value level</b>	<b>\$ 38,150,934</b>	<b>\$ 7,206,850</b>	<b>\$ 27,192,118</b>	<b>\$ 3,751,966</b>

All securities classified in Level 1 are valued using quoted prices in active markets.

All securities classified in Level 2 are valued using pricing models that are based on market data, such as matrix or model pricing, which use standard inputs, that include benchmark yields, reported trades, broker/dealer quotes, issue spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications.

All securities classified in Level 3 are valued using cost.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016 and 2015 was \$1,153,836 and \$2,143,849, respectively. The total fair value of all public agencies invested in LAIF at December 31, 2016 and 2015 was \$21,638,343,047 and \$20,287,338,877, 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 manages this risk by holding investments to maturity or by adjusting the effective duration (a measure of the responsiveness of a bond's price to interest rate changes) 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, 2016 and 2015, the effective duration of the "Bank of America Merrill Lynch 0-5 Year U.S. Treasury Index" was 2.16 and 2.14, respectively.

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

Cash Equivalent Type	December 31, 2016		December 31, 2015	
	Fair Value	Duration	Fair Value	Duration
LAIF	\$ 1,153,836	0.47	\$ 2,143,849	0.49
Money market mutual funds	130,376	-	59,860	-
Weighted average duration	\$ 1,284,212	0.42	\$ 2,203,709	0.48

Weighted-average effective duration on investments were as follows:

Investment Type	December 31, 2016		December 31, 2015	
	Fair Value	Duration	Fair Value	Duration
Negotiable certificates of deposit	\$ 7,839,441	0.80	\$ 8,002,514	1.16
U.S. treasury notes/bonds	7,206,850	3.76	7,271,662	3.07
Federal agency securities	9,330,121	2.25	7,812,949	1.78
Municipal obligations	1,146,889	1.35	2,751,745	1.53
Corporate notes	8,401,104	2.20	11,136,924	2.58
Mortgage backed and asset backed securities	3,708,876	1.92	3,726,299	1.39
Supranationals	517,653	2.32	-	-
Weighted average duration	\$38,150,934	2.08	\$ 40,702,093	2.05

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016, were as follows:

Cash Equivalent Type		Minimum Legal Rating	Ratings as of Year-End		
			Not Rated	AAA/AA	AA-/A-1
LAIF	\$ 1,153,836	-	\$ 1,153,836	\$ -	\$ -
Money market mutual funds	130,376	-	-	130,376	-
Total cash equivalents	\$ 1,284,212	-	\$ 1,153,836	\$ 130,376	\$ -

Investment credit ratings as of December 31, 2016 were as follows:

Investment Type		Minimum Legal Rating	Not Rated	Ratings as of Year-End			
				AAA	AA+/AA-	A+/A-1/A3	BBB+
Negotiable certificates of deposit	\$ 7,839,441	A	\$ -	\$ -	\$ 2,307,071	\$ 5,532,370	\$ -
U.S. treasury notes/bonds	7,206,850	-	-	-	7,206,850	-	-
Federal agency securities	9,330,121	-	-	-	9,330,121	-	-
Municipal obligations	1,146,889	-	215,615	-	931,274	-	-
Corporate notes	8,401,104	A	-	-	3,981,465	3,901,676	517,963
Mortgage backed and asset backed securities	3,708,876	A	936,098	1,507,822	1,264,956	-	-
Supranationals	517,653	-	-	517,653	-	-	-
Total investments	\$38,150,934	-	\$1,151,713	\$2,025,475	\$25,021,737	\$9,434,046	\$517,963

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	-	-	59,860	-
Total cash equivalents	\$ 2,203,709	-	\$ 2,143,849	\$ 59,860	\$ -

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(3) Cash, Cash Equivalents and Investments, continued**

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	<u>\$40,702,094</u>	-	<u>\$ 901,392</u>	<u>\$2,483,881</u>	<u>\$24,601,799</u>	<u>\$12,715,021</u>

**Concentration of Credit Risk**

At December 31, 2016 and 2015, 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	2016		2015	
Federal National Mortgage Association	Federal agency securities	\$ 4,520,597	11.85%	\$ 7,009,234	17.21%
Federal Home Loan Mortgage	Federal agency securities	\$ 2,350,150	6.16%	\$ 2,159,522	5.31%
Federal Home Loan Bank	Federal agency securities	\$ 3,724,331	9.76%	\$ -	-

**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, 2016 and 2015, \$2,684,138 and \$1,781,255, 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.



**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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:

	<b>2016</b>	<b>2015</b>
2009A Certificates of participation reserve fund	\$ 1	\$ 1
2009B Certificates of participation reserve fund	257	16,641
2012A Revenue bond interest payment fund	5	5
Total	<u>\$ 263</u>	<u>\$ 16,647</u>

Restricted investments as of December 31 were as follows:

	<b>2016</b>	<b>2015</b>
2009B Certificates of participation reserve fund	<u>\$ 3,531,061</u>	<u>\$ 3,495,980</u>

**(5) Receivables, Net and Restricted Receivable**

Receivables as of December 31 consist of the following:

	<b>2016</b>	<b>2015</b>
Water sales and services receivable	\$ 2,430,000	\$ 2,462,281
Allowance for doubtful accounts	(152,321)	(158,794)
Accrued interest receivable	134,041	119,500
Accrued interest receivable on restricted investments	8,714	10,808
Receivable from OPEB trust	130,550	63,808
Receivable from San Juan Water District	-	573,417
Grant receivable	285,929	238,325
Total	<u>\$ 2,836,913</u>	<u>\$ 3,309,345</u>

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(6) Capital Assets**

Changes in capital assets for the year ended December 31, 2016, were as follows:

	Restated				
	Balance 2015	Additions	Deletions	Transfers	Balance 2016
<b>Non-depreciable assets:</b>					
Land	\$ 1,669,713	\$ -	\$ -	\$ 129,151	\$ 1,798,864
Permanent easements	3,168,985	442,829	-	-	3,611,814
Construction-in-progress	5,340,129	17,367,200	-	(18,357,365)	4,349,964
Total non-depreciable assets	10,178,827	17,810,029	-	(18,228,214)	9,760,642
<b>Depreciable and amortizable assets:</b>					
Land improvements	1,036,009	-	-	-	1,036,009
Pumping and wells	72,324,286	15,358	(244,759)	4,799,068	76,893,953
Hydrants, PRV stations, valves	128,481,782	223,543	-	2,535,991	131,241,316
Purchased trans & dist pipelines	153,187,239	549,997	-	7,048,007	160,785,243
Capacity entitlement	5,282,728	-	-	-	5,282,728
Storage facilities – reservoirs	13,673,880	-	-	376,479	14,050,359
Water meters	30,277,757	-	-	3,425,536	33,703,293
Buildings	2,690,040	-	-	-	2,690,040
Buildings improvements	3,574,373	109,647	-	43,133	3,727,153
Machinery and equipment	772,650	-	-	-	772,650
Fleet equipment	1,493,148	235,576	-	-	1,728,724
Office equipment	443,917	23,635	(193,252)	-	274,300
Computer software	2,573,135	78,724	-	-	2,651,859
Computer hardware & equipment	1,064,214	103,188	(98,958)	-	1,068,444
Total depreciable & amort. Assets	416,875,158	1,339,668	(536,969)	18,228,214	435,906,072
<b>Accumulated depreciation and amortization:</b>					
Land improvements	(816,536)	(26,124)	-	-	(842,660)
Pumping and wells	(32,350,842)	(2,657,990)	244,472	-	(34,764,360)
Hydrants, PRV stations, valves	(62,882,707)	(3,746,249)	-	-	(66,628,956)
Purchased trans & dist pipelines	(18,906,590)	(1,921,280)	-	-	(20,827,870)
Capacity entitlement	(3,126,219)	(174,672)	-	-	(3,300,891)
Storage facilities – reservoirs	(3,600,592)	(340,942)	-	-	(3,941,534)
Water meters	(16,834,608)	(2,331,254)	-	-	(19,165,862)
Buildings	(1,310,580)	(66,945)	-	-	(1,377,525)
Buildings improvements	(2,704,141)	(130,626)	-	-	(2,834,767)
Machinery and equipment	(654,870)	(42,718)	-	-	(697,588)
Fleet equipment	(1,320,252)	(57,222)	-	-	(1,377,474)
Office equipment	(336,571)	(23,891)	181,656	-	(178,806)
Computer software	(2,122,257)	(159,573)	-	-	(2,281,830)
Computer hardware & equipment	(709,792)	(128,095)	98,154	-	(739,733)
Total accumulated depr. & amort.	(147,676,557)	(11,807,581)	524,282	-	(158,959,857)
Total depr. & amort. assets, net	269,198,601	(10,467,913)	(12,687)	18,228,214	276,946,215
Total capital assets, net	\$279,377,428	\$ 7,342,116	\$ (12,687)	\$ -	\$ 286,706,857

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(6) Capital Assets, continued**

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

	Restated Balance 2014	Restated Additions	Deletions	Transfers	Restated Balance 2015
Non-depreciable assets:					
Land	\$ 1,669,713	\$ -	\$ -	\$ -	\$ 1,669,713
Permanent easements	2,554,642	613,143	-	1,200	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	19,166,706	-	(18,742,069)	10,178,827
Depreciable and amortizable assets:					
Land improvements	1,036,009	-	-	-	1,036,009
Pumping and wells	67,224,870	20,227	-	5,079,189	72,324,286
Hydrants, PRV stations, valves	123,949,835	381,980	-	4,149,967	128,481,782
Purchased trans & dist pipelines	145,698,863	208,516	-	7,279,860	153,187,239
Capacity entitlement	5,282,728	-	-	-	5,282,728
Storage facilities – reservoirs	13,673,880	-	-	-	13,673,880
Water meters	28,080,623	9,300	-	2,187,834	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	145,774	-	45,219	1,064,214
Total depreciable & amort. assets	396,906,164	1,255,673	(28,748)	18,742,069	416,875,158
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	(59,204,127)	(3,678,580)	-	-	(62,882,707)
Purchased trans & dist pipelines	(17,085,744)	(1,820,846)	-	-	(18,906,590)
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)	(89,928)	-	-	(709,792)
Total accumulated depr. & amort.	(136,476,761)	(11,228,545)	28,748	-	(147,676,557)
Total depr. & amort. assets, net	260,429,403	(9,972,871)	-	18,742,069	269,198,601
Total capital assets, net	\$ 270,183,593	\$ 9,193,835	\$ -	\$ -	\$279,377,428

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(6) Capital Assets, continued**

Major capital asset additions during 2016 and 2015 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:

	2016	2015
Rutland well construction	\$ -	\$ 832,282
Well rehabilitation/pump improvements	960,260	825,286
Meter retrofit project	-	808,147
SCADA RTU panels improvements	24,750	422,682
Watt Avenue Magpie Creek extension	-	421,092
Palm Avenue Well	760,912	227,886
Parkland Estate main replacement	1,023,218	-
Edison Meadows main replacement	116,455	-
Water System Master Plan	268,723	-
Various other distribution main replacements	862,753	1,496,004
Various other minor projects	332,893	306,750
Construction-in-progress	\$ 4,349,964	\$ 5,340,129

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, 2016 and 2015.

**(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:

				Due Within One Year
Balance 2016	Earned	Taken	Balance 2016	
\$ 1,003,878	\$ 783,060	\$ (699,055)	\$ 1,087,883	\$ 700,000

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

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016, are as follows:

	<b>Balance 2015</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 2016</b>	<b>Current Portion</b>
2009A Certificates of participation	\$ 42,000,000	\$ -	\$ -	\$ 42,000,000	\$ -
2009B Certificates of participation	26,045,000	-	(1,950,000)	24,095,000	2,030,000
2012A Revenue bond	21,515,000	-	(1,995,000)	19,520,000	2,030,000
Total principal	89,560,000	-	(3,945,000)	85,615,000	\$4,060,000
Unamortized bond premium	3,911,260	-	(323,449)	3,587,811	
Imputed borrowing - off-market swap	5,622,452	-	(323,336)	5,299,116	
Total long-term debt	\$ 99,093,712	\$ -	\$ (4,591,785)	\$ 94,501,927	

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

	<b>Balance 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 2015</b>	<b>Current Portion</b>
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	

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

The future debt service schedule of all long-term debt as of December 31, 2016, is as follows:

Year	Principal	Interest <sup>(1)</sup>	Total
2017	\$ 4,060,000	\$ 3,484,011	\$ 7,544,011
2018	4,240,000	3,299,937	7,539,937
2019	4,390,000	3,112,357	7,502,357
2020	4,595,000	2,934,588	7,529,588
2021	4,815,000	2,718,907	7,533,907
2022-2026	20,285,000	10,460,103	30,745,103
2027-2031	26,770,000	5,464,442	32,234,442
2032-2034	16,460,000	1,041,549	17,501,549
Total	85,615,000	\$ 32,515,894	\$ 118,130,894
Less current portion	(4,060,000)		
Unamortized bond premium	3,587,811		
Imputed borrowing on off-market swap	5,299,116		
Total non-current long-term debt	\$ 90,441,927		

(1) Includes – 1) fixed-rate interest at scheduled payments, 2) variable-rate interest at an estimated rate of 1.275 percent as of December 31, 2016 (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 0.601 percent as of December 31, 2016.

**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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

As of December 31, 2016, the future debt service schedule of the 2009 Series A COP obligation and associated swap payments are as follows:

Year	2009 Series A COP		Interest Rate <sup>(1)</sup>		Total
	Principal	Interest <sup>(2)</sup>	Swap, Net		
2017	\$ -	\$ 535,500	\$ 893,036		\$ 1,428,536
2018	-	535,500	893,036		1,428,536
2019	-	535,500	893,036		1,428,536
2010	-	535,500	893,036		1,428,536
2021	-	535,500	893,036		1,428,536
2022-2026	5,030,000	2,574,756	4,293,837		11,898,593
2027-2031	20,510,000	1,888,870	3,150,567		25,549,437
2032-2034	16,460,000	390,299	651,250		17,501,549
<b>Total</b>	<b>42,000,000</b>	<b>\$ 7,531,425</b>	<b>\$ 12,560,834</b>		<b>\$ 62,092,259</b>
Less current portion		-			
Imputed borrowing- off-market swap		5,299,116			
<b>Total non-current COP obligation</b>	<b>\$</b>	<b>47,299,116</b>			

(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 0.601 percent as of December 31, 2016.

(2) Estimated at an assumed rate of 1.275 percent as of December 31, 2016 (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, 2016 and 2015, the fair market value of permitted investments in the reserve fund, including accrued interest, was \$3,540,032 and \$3,523,430, respectively, while the amortized cost was \$3,536,762 and \$3,530,026, respectively.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

As of December 31, 2016, the future debt service schedule of the 2009 Series B COP obligation is as follows:

Year	Principal	Interest	Total
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	2,495,000	789,533	3,284,533
2022-2026	7,950,000	2,394,395	10,344,395
2027-2028	4,895,000	379,505	5,274,505
Total	24,095,000	\$ 7,837,479	\$ 31,932,479
	Less current portion	(2,030,000)	
	Unamortized bond premium	991,367	
	Total non-current COP obligation	\$ 23,056,367	

**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.



**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

As of December 31, 2016, the future debt service schedule of the 2012 Series A Revenue Bond is as follows:

Year	Principal	Interest	Total
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	2,320,000	500,838	2,820,838
2022-2026	7,305,000	1,197,115	8,502,115
2027-2028	1,365,000	45,500	1,410,500
Total	19,520,000	\$ 4,586,156	\$ 24,106,156
Less current portion	(2,030,000)		
Unamortized bond premium	2,596,444		
Total non-current bond obligation	\$ 20,086,444		

**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, 2016 and 2015, 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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

***Fair Value***

Based on existing market conditions as of December 31, 2016 and 2015, the swap had a negative fair value of \$6,730,734 and \$7,510,224 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, 2016 and 2015, the "on-market" portion of the swap's negative fair value is reported as a component of non-current liabilities on the Statements of Net Position and the offsetting amount is recorded as a deferred outflow or inflow of resources. The "on-market" portion of the swap is considered an effective hedging instrument as of December 31, 2016 and 2015.

	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Term Date	Counterparty Credit Rating (1)
Dec. 31, 2016	\$33,300,000	April 11, 2012	3.283%	60% LIBOR +.18%	\$ (6,730,734)	Nov. 1, 2034	Aa2/AA-/AA
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-

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

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

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

	Notional Amortization	Swap Payments, Net <sup>(1)</sup>	Total
2017	\$ -	\$ 893,036	\$ 893,036
2018	-	893,036	893,036
2019	-	893,036	893,036
2020	-	893,036	893,036
2021	-	893,036	893,036
2022-2026	3,985,000	4,293,837	8,278,837
2027-2031	16,260,000	3,150,567	19,410,567
2032-2034	13,055,000	651,250	13,706,250
Total	\$ 33,300,000	\$ 12,560,834	\$ 45,860,834

(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 0.601 percent as of December 31, 2016.

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.

***Variable Interest Rate Risk (or 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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(8) Long-Term Debt, continued**

***Termination Event 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.

***Liquidity/Credit Enhancement on Certificates - 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, 2018. 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:

	<b>2016</b>	<b>Restated 2015</b>
Capital assets not being depreciated	\$ 9,760,642	\$ 10,178,827
Capital assets being depreciated and amortized, net	276,946,215	269,198,601
Deferred outflows on long-term debt refundings	7,321,214	7,964,338
Long term debt	(94,501,927)	(99,093,712)
Net investment in capital assets, considered non-expendable	<u>\$199,526,144</u>	<u>\$188,248,054</u>

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(10) Restricted Net Position**

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

	2016	2015
2009A Certificates of participation reserve fund	\$ 1	\$ 1
2009B Certificates of participation reserve fund (cash and interest receivable)	3,540,032	3,523,430
2012A Revenue bond interest payment fund	5	4
Total restricted net position	\$ 3,540,038	\$ 3,523,435

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, 2016 and 2015 the District has one committed fund with a zero balance for both years. 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, 2016 and 2015, amounted to \$3,830,600 and \$3,441,058, respectively.

**Sacramento Suburban Water District  
Notes to the Basic Financial Statements, continued  
For the Years Ended December 31, 2016 and 2015**

**(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 (Classic Members)
- Miscellaneous Plan – 2.0% at 55 (Classic Members)
- 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 PEPRA members) 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, 2016 and 2015, are summarized as follows:

	<b>Miscellaneous</b>		
	Prior to 09/25/2006	After 9/25/2006 and Prior to 01/01/2013	On or after 01/01/2013
Hire date			
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	8.00%*	7.00%*	6.50%
Required employer contribution rates – 2016	13.50%	9.06%	6.93%
Required employer contribution rates – 2015	12.76%	8.84%	6.73%
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)

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(13) Defined Benefit Pension Plan, continued**

In addition to the contribution rates above, the District was also required to make a payment of \$304,049 and \$263,875 toward its unfunded actuarial liability of all Plans during the year ended December 31, 2016 and 2015, respectively.

***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. The District's total employer contributions were \$821,520 and \$834,729 for the years ended December 31, 2016 and 2015, respectively. Dependent on the Rate Plan, the employee contribution rate was 8.0 percent or 7.0 percent of annual pay for Classic members and 6.50 percent for PEPRAs members for the measurement periods ended June 30, 2016 and 2015. The District contributes the full 8.0 percent or 7.0 percent for Classic members while PEPRAs members contribute the full 6.50 percent. At December 31, 2016 and 2015, District's pickup of the employee's 8.0 percent and 7.0 percent share was \$316,898 and \$300,289, respectively.

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

As of December 31, 2016 and 2015, the District reported a net pension liability for its proportionate share of the net pension liability of the Plans of \$7,654,038 and \$5,722,018, respectively.

The District's net pension liability is measured as the proportionate share of the Pool's net pension liability. The net pension liability is measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014 rolled forward to June 30, 2016 and 2015 using standard update procedures. For June 30, 2016, the District's proportion of the Net Pension Liability was based on its proportion of the Total Pension Liability less its proportion of the Fiduciary Net Position. 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 the Plan as of June 30, 2016 and 2015 was as follows:

Proportion - June 30, 2015	0.208569 %
Proportion - June 30, 2016	0.220331 %
Change - Increase (Decrease)	0.0011762 %

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(13) Defined Benefit Pension Plan, continued**

The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2014 was as follows:

Proportion - June 30, 2014	0.204804 %
Proportion - June 30, 2015	<u>0.208569 %</u>
Change - Increase (Decrease)	<u><u>0.003765 %</u></u>

For the year ended December 31, 2016 and 2015, the District recognized pension expense of \$966,988 and \$392,428, respectively. At December 31, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Pension contributions subsequent to measurement date	\$ 579,159	\$ 504,894	\$ -	\$ -
Changes in assumptions	-	-	252,098	395,771
Net differences between projected and actual earnings on plan investments	1,312,085	-	-	198,405
Differences between expected and actual experience	26,646	41,832	6,105	-
Differences between the employer's contribution and the employer's proportionate share of contributions	-	-	268,417	172,503
Change in employer's proportion	<u>160,644</u>	<u>-</u>	<u>17,171</u>	<u>31,855</u>
Total	<u><u>\$2,078,534</u></u>	<u><u>\$ 546,726</u></u>	<u><u>\$ 543,791</u></u>	<u><u>\$ 798,534</u></u>

The \$579,159 and \$504,894 reported as deferred outflows of resources as of December 31, 2016 and 2015 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, 2016 and 2015, respectively. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended</u> <u>December 31</u>	
2017	\$ (19,705)
2018	\$ 48,111
2019	\$ 587,333
2020	\$ 339,845



**Sacramento Suburban Water District  
Notes to the Basic Financial Statements, continued  
For the Years Ended December 31, 2016 and 2015**

**(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, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions:

	<b>2016</b>	<b>2015</b>
	<b>Miscellaneous</b>	<b>Miscellaneous</b>
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.30% - 14.20% (1)	3.30% - 14.20% (1)
Investment Rate of Return	7.65% (2)	7.50% (2)
Mortality	(3)	(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, 2016 and 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 were 7.65 percent and 7.65 percent as of June 30, 2016 and 2015 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 discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate 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.

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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(13) Defined Benefit Pension Plan, continued**

For both 2016 and 2015, 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	2016	2015	2016 and 2015	
	New Strategic Allocation	New Strategic Allocation	Real Return Years 1 – 10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	6.0%	0.45%	3.36%
Private Equity	10.0%	10.0%	6.83%	6.95%
Real Estate	10.0%	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	2.0%	4.50%	5.09%
Liquidity	1.0%	2.0%	(0.55)%	(1.05)%
Total	100.0%	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 the Plans, calculated using the discount rate for the Plans, 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:

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(13) Defined Benefit Pension Plan, continued**

	<b>2016</b>	<b>2015</b>
	<b>Sensitivity to 1- Percent Change</b>	<b>Sensitivity to 1- Percent Change</b>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 12,202,722	\$ 9,596,223
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 7,654,038	\$ 5,722,018
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 3,894,776	\$ 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, 2016 and 2015, 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.

***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

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016 and 2015, 32 and 30 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 2016 and 2015 are 10.67 percent and 13.65 percent of annual covered payroll, respectively.

In accordance with the provisions of GASB 45, as the District is fully funding its ARC no liability is shown on the Statements of Net Position. The ARC was fully funded in both 2016 and 2015 in the amount of \$470,000 and \$591,000, respectively. The ARC amounts funded include the normal cost of \$161,000 in 2016 and \$348,000 in 2015, and \$309,000 and \$243,000 to amortize the Unfunded Actuarial Accrued Liability (UAAL) in 2016 and 2015, respectively.

***Funded Status and Funding Progress of the Plan***

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
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, 2016, 2015, and 2014, were equal to its ARC amounts for each year of \$470,000, \$591,000 and \$592,700, 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.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016 and 2015 were regularly scheduled premium payments which were not material to the District’s financial statements. At December 31, 2016, 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 \$5 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 \$150 million per loss.
- Boiler and machinery coverage for the replacement cost up to \$150 million per occurrence, subject to various deductibles depending on the type of equipment.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016 and 2015. 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, 2016 and 2015.

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](http://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 2016 and 2015 were \$27,559 and \$27,422, respectively. Future estimated lease commitment costs for the period January 1, 2017, to May 31, 2037, are estimated to be \$562,671, as of December 31, 2016.

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

In 1995 (and amended in 2000, 2008 and 2016\*), the District and the Placer County Water Agency (Agency) entered into a 45-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 2045	12,000	29,000	acre feet

\* Contract renegotiated in 2016, extended term of agreement to December 31, 2045.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 2015**

**(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, 2016.

**Sacramento Suburban Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended December 31, 2016 and 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, 2016, the District's commitment on open construction contracts is \$1.3 million:

<b>Project Name</b>	<b>Approved Contract</b>	<b>Payments To Date</b>	<b>Remaining Commitment</b>
Palm Avenue well construction	\$ 458,537	\$ (330,563)	\$ 127,974
El Prado Avenue well construction	466,024	(432,227)	33,797
Parkland Estate main replacement – Phase 1	1,273,458	(664,455)	609,003
Parkland Estate main replacement – Phase 2	204,180	-	204,180
Water System Master Plan	345,010	(289,760)	55,250
<b>Total</b>	<b>\$ 2,747,209</b>	<b>\$ (1,717,005)</b>	<b>\$ 1,030,204</b>



## **Required Supplementary Information**

**Sacramento Suburban Water District  
 Required Supplementary Information (Unaudited)  
 For The Years Ended December 31, 2016 and 2015**

**Schedule of Funding Progress  
 Other Post Employment Benefits**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
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, 2016 and 2015**

**Schedule of the Proportionate Share of the Net Pension Liability  
Last 10 Years <sup>(1)</sup>**

	June 30		
	2016	2015	2014
Proportion of the net pension liability	0.220331%	0.208569%	0.204804%
Proportionate share of the net pension liability	\$7,654,038	\$5,722,018	\$5,061,703
Covered payroll – measurement period	\$4,272,005	\$4,212,170	\$4,020,086
Proportionate share of net pension liability as a % of covered payroll	179.17%	135.84%	125.91%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	83.03%

**Notes to Schedule:**

- (1) Omitted Years: GASB 68 was implemented during 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 as no plan changes have occurred.
- (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 <sup>(1)</sup>**

	December 31		
	2016	2015	2014
Contractually required contribution (actuarially determined)	\$ 821,520	\$ 834,729	\$ 620,038
Contributions in relation to the actuarially determined contributions	(821,520)	(834,729)	(620,038)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll – calendar year	\$4,455,827	\$4,275,516	\$ 4,063,473
Contributions as a percentage of covered employee payroll	18.44 %	19.52 %	15.26 %
Valuation Date	06/30/2014	06/30/2013	06/30/2012

	December 31		
	2016	2015	2014
Methods and assumptions used to determine contribution rates:	Entry-Age Normal		
Actuarial cost method	Level percentage of payroll, closed		
Amortization method	14 years      15 years      15 years		
Remaining amortization period	5-year smoothed market		
Asset valuation method	2.75%	2.75%	2.75%
Inflation	Varies by Entry Age and Service		
Salary increases	3.00%	3.00%	3.00%
Payroll growth	7.50% (2)	7.50% (2)	7.50% (2)
Investment rate of return	(3)	(3)	(3)
Retirement age and mortality			

**Notes to Schedule:**

- (1) Omitted Years: GASB 68 was implemented during 2014. No information was available prior to this date.
- (2) Net of pension plan investment expenses, includes inflation.
- (3) Probabilities of retirement and mortality are based on CalPERS' 2010 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.

	<u>Page Number</u>
<b><u>Financial Trends</u></b>	57 - 58
These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	
<b><u>Revenue Capacity</u></b>	59 - 62
These schedules contain information to help the reader assess the District's most significant local revenue-sources: retail water sales.	
<b><u>Debt Capacity</u></b>	63 - 64
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
<b><u>Demographic and Economic Information</u></b>	65 - 66
This schedule offers demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
<b><u>Operating Information</u></b>	67 - 71
This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides and activities it performs.	

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

	2007	2008	2009	2010	2011	2012	2013	Restated 2014	Restated 2015	2016
<b>Assets</b>										
Current assets	\$ 25,229	\$ 29,194	\$ 18,554	\$ 17,056	\$ 12,711	\$ 9,045	\$ 9,632	\$ 4,611	\$ 7,258	\$ 7,944
Noncurrent assets	33,928	32,509	43,421	40,180	42,714	43,299	44,416	43,456	40,702	38,165
Capital assets:										
Nondepreciable assets	8,208	4,925	14,755	12,483	23,829	10,426	6,022	9,754	10,179	9,761
Depreciable assets	266,782	285,410	295,392	320,928	327,124	358,258	380,164	396,906	416,875	435,906
Accumulated depreciation	(74,711)	(83,006)	(91,246)	(100,380)	(110,084)	(119,900)	(127,125)	(136,477)	(147,676)	(158,960)
Capital assets, net	200,279	207,329	218,901	233,031	240,869	248,784	259,061	270,183	279,378	286,707
Total assets	259,436	269,032	280,876	290,267	296,294	301,128	313,109	318,250	327,338	332,816
Deferred outflows of resources	-	-	4,544	12,656	16,254	11,556	9,715	9,743	9,276	9,400
<b>Liabilities</b>										
Current liabilities	6,630	7,297	7,242	9,387	8,287	7,844	7,840	7,935	8,583	9,314
Noncurrent liabilities	120,811	109,622	111,368	116,508	116,889	110,403	111,250	105,793	101,940	98,484
Total liabilities	127,441	116,919	118,610	125,895	125,176	118,247	119,090	113,728	110,523	107,798
Deferred inflows of resources	-	-	-	-	-	-	2,565	1,819	799	558
<b>Net position</b>										
Net investment in capital assets	88,634	99,014	110,210	126,110	137,004	146,682	160,474	175,262	188,248	199,526
Restricted	9,467	6,310	6,762	6,642	6,643	3,532	3,520	3,540	3,523	3,540
Unrestricted	33,894	46,789	49,838	44,277	43,725	44,223	37,175	33,644	33,521	30,794
Total net position	\$ 131,995	\$ 152,113	\$ 166,810	\$ 177,029	\$ 187,372	\$ 194,437	\$ 201,169	\$ 212,446	\$ 225,292	\$ 233,860

**Sacramento Suburban Water District**  
**Statistical Information (Unaudited)**

Changes in Net Position

Last Ten Years

(Dollars in Thousands)

	2007	2008	2009	2010	2011	2012	2013	Restated 2014	Restated 2015	2016
<b>Operating Revenues</b>										
Water sales	\$9,689	\$10,897	\$11,031	\$10,967	\$10,151	\$11,656	\$12,451	\$10,827	\$ 9,644	\$ 11,053
Water transfers	-	-	2,347	637	-	-	536	-	-	-
Water service charge	8,495	8,050	7,415	7,174	7,095	6,820	6,608	6,306	6,402	6,349
Capital facilities charge	12,545	16,436	19,977	20,493	20,448	20,619	20,650	20,678	21,646	22,575
Wheeling water charge	146	295	148	273	303	170	6	6	6	167
Other charges	733	1,129	971	991	960	946	1,068	1,113	992	939
Total operating revenues	31,608	36,807	41,889	40,535	38,957	40,211	41,319	38,930	38,690	41,083
<b>Operating Expenses</b>										
Source of supply	1,599	1,843	2,334	2,290	2,663	2,039	406	67	57	2,471
Pumping	3,582	3,253	3,461	3,265	3,341	4,238	4,706	4,631	5,124	4,852
Transmission and distribution	3,973	3,544	3,838	3,583	3,997	3,596	3,886	3,643	3,621	3,973
Water conservation	286	483	490	415	202	295	321	399	773	587
Customer accounts	726	918	960	968	1,003	976	1,086	1,122	1,159	1,145
Administrative and general	5,595	5,950	5,709	10,176	6,135	5,738	5,919	6,100	6,120	6,818
Total operating expenses	15,761	15,991	16,792	20,697	17,341	16,882	16,324	15,962	16,854	19,846
Operating income before depreciation	15,847	20,816	25,097	19,838	21,616	23,329	24,995	22,968	21,836	21,237
Depreciation	(7,465)	(8,295)	(8,792)	(9,171)	(9,705)	(9,890)	(10,424)	(10,812)	(11,229)	(11,808)
<b>Operating income</b>	<b>8,382</b>	<b>12,521</b>	<b>16,305</b>	<b>10,667</b>	<b>11,911</b>	<b>13,439</b>	<b>14,571</b>	<b>12,156</b>	<b>10,607</b>	<b>9,429</b>
Non-operating revenues	3,464	10,545	1,504	1,693	1,520	(3,540)	488	920	816	834
Interest expense	(5,321)	(6,266)	(5,183)	(5,133)	(4,773)	(4,157)	(3,914)	(3,802)	(3,633)	(3,561)
Other non-operating expenses	(2)	(132)	(103)	(117)	(7)	(418)	-	-	-	-
Gain (loss) on disposal of capital assets, net	(18)	-	(1)	243	-	12	-	21	6	(13)
<b>Income before capital contributions</b>	<b>6,505</b>	<b>16,668</b>	<b>12,522</b>	<b>7,353</b>	<b>8,651</b>	<b>5,336</b>	<b>11,145</b>	<b>9,295</b>	<b>7,796</b>	<b>6,689</b>
Capital contributions	3,955	3,450	2,175	2,405	1,692	1,729	3,096	2,455	5,049	1,879
<b>Increase in net position</b>	<b>10,460</b>	<b>20,118</b>	<b>14,697</b>	<b>9,758</b>	<b>10,343</b>	<b>7,065</b>	<b>14,241</b>	<b>11,750</b>	<b>12,845</b>	<b>8,568</b>
Net position, beginning of year	121,535	131,995	152,113	166,810	177,029	187,372	194,437	201,169	212,447	225,292
Adjustment	-	-	-	461	-	-	(7,509)	(472)	-	-
Net position, end of year	131,995	152,113	166,810	177,029	187,372	194,437	201,169	212,447	225,292	233,860



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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Water Sales (Dollars in Thousands):</b>										
Retail	\$30,730	\$35,383	\$38,423	\$38,634	\$37,694	\$39,095	\$39,709	\$37,811	\$37,692	\$39,977
Wheeling	146	295	149	273	303	170	6	6	6	167
Water Transfers	-	-	2,347	637	-	-	536	-	-	-
<b>Total Water Sales</b>	<b>\$30,876</b>	<b>\$35,678</b>	<b>\$40,919</b>	<b>\$39,544</b>	<b>\$37,997</b>	<b>\$39,265</b>	<b>\$40,251</b>	<b>\$37,817</b>	<b>\$37,698</b>	<b>\$40,144</b>

<b>Water Production (Acre Feet):</b>										
Retail	45,472	38,495	35,103	37,983	35,829	38,089	38,554	32,561	27,502	29,312
Wheeling	558	1,458	588	1,632	2,106	647	348	115	51	264
Water Transfers	-	-	8,462	2,712	-	-	2,822	-	-	-
<b>Total Water Production</b>	<b>46,030</b>	<b>39,953</b>	<b>44,153</b>	<b>42,327</b>	<b>37,935</b>	<b>38,736</b>	<b>41,724</b>	<b>32,676</b>	<b>27,553</b>	<b>29,576</b>

<b>Water Sales/Acre Foot (Whole Dollars):</b>										
Retail	\$676	\$919	\$1,095	\$1,017	\$1,052	\$1,026	\$1,030	\$1,161	\$1,371	\$1,364
Wheeling	\$262	\$202	\$253	\$167	\$144	\$263	\$17	\$52	\$118	\$633
Water Transfers	-	-	\$277	\$235	-	-	\$190	-	-	-

Source: District.

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

	2007	2008	2009 To 2014	2015	2016
<b>Flat Accounts</b>					
Usage Charge (\$/1,000 per sq. foot)	\$ 0.70	\$ 0.80	\$ 0.91	\$ 0.95	\$ 0.98
Flat Service Charge (single unit)					
¾" connection	15.30	15.12	14.89	15.49	16.11
1" connection	22.82	22.23	21.55	22.41	23.31
1 ½" connection	43.62	42.24	40.69	42.32	44.01
2" connection	49.55	45.04	40.19	41.80	43.47
<b>Metered Accounts</b>					
<b>Usage Charge (\$/100 cubic feet (CCF))</b>					
Residential – 1st Tier (0-10 CCF)	0.66	0.73	0.80	0.83	0.87
Residential – 2nd Tier (11+ CCF)	0.83	0.91	1.00	1.04	1.08
Non-Resid–Off-Peak Rate (Nov-Apr)	0.69	0.75	0.81	0.84	0.88
Non-Resid.–Peak Rate (May-Oct)	0.86	0.94	1.01	1.05	1.09
<b>Meter Service Charge (by Meter Size)</b>					
5/8" meter	5.05	4.35	3.60	3.74	3.89
¾" meter	7.35	6.35	5.25	5.46	5.68
1" meter	12.05	10.35	8.50	8.84	9.19
1 ½" meter	23.75	20.30	16.60	17.26	17.95
2" meter	37.80	32.30	24.60	27.46	28.55
3" meter	70.60	60.25	49.20	51.17	53.21
4" meter	117.50	100.20	81.75	85.02	88.42
6" meter	234.55	200.05	163.15	169.68	176.46
8" meter	422.00	359.85	293.40	305.14	317.34
10" meter	679.70	579.55	472.50	491.40	511.06
12" meter	1,007.60	859.10	700.40	728.42	757.55
<b>Flat and Metered Accounts</b>					
<b>Capital Facilities Charge</b>					
5/8" meter	12.35	15.55	19.25	20.02	20.82
¾" meter or connection	18.40	23.20	28.70	29.85	31.04
1" meter or connection	30.75	38.75	48.00	49.92	51.92
1 ½" meter or connection	61.25	77.25	95.65	99.48	103.46
2" meter or connection	98.05	123.65	153.10	159.22	165.59
3" meter	184.00	232.05	287.30	298.79	310.74
4" meter	306.70	386.85	478.95	498.11	518.03
6" meter	613.20	773.40	957.60	995.90	1,035.74
8" meter	1,103.90	1,392.20	1,723.80	1,792.75	1,864.46
10" meter	1,778.60	2,243.25	2,777.45	2,888.55	3,004.09
12" meter	2,636.65	3,325.55	4,117.65	4,282.36	4,453.65

Source: District

**Sacramento Suburban Water District**  
**Statistical Information (Unaudited)**  
**Facility Development Charges (Connection Fees)**  
**Last Ten Years**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5/8" service	\$ 2,510	\$ 2,773	\$ 2,874	\$ 2,996	\$ 3,338	\$ 3,544	\$ 3,826	\$ 2,762	\$ 3,130	\$ 3,168
¾" service	3,747	4,157	4,309	4,472	4,982	5,290	5,711	4,122	4,672	4,728
1" service	6,257	6,942	7,196	7,468	8,319	8,834	9,537	6,884	7,802	7,896
1 ½" service	12,477	13,843	14,350	14,891	16,589	17,616	19,017	13,726	15,558	15,745
2" service	19,971	22,157	22,968	23,835	26,552	28,196	30,439	21,970	24,902	25,202
3" service	37,469	41,570	43,092	44,718	49,817	52,901	57,108	41,220	46,720	47,282
4" service	62,460	69,297	71,834	74,545	83,045	88,185	95,199	68,714	77,882	78,820
6" service	124,883	138,553	143,625	149,046	166,040	176,318	190,341	137,386	155,718	157,952
8" service	224,812	249,420	258,551	268,309	298,902	317,403	342,648	219,826	249,158	252,157
10" service	362,210	401,857	416,569	432,291	481,581	511,390	552,063	316,034	358,202	362,514
12" service	537,038	595,835	617,648	640,946	714,028	758,225	818,529	463,725	525,600	531,927

Source: District.

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

Principal Retail Rate Payers	<u>December 31, 2016</u>			<u>December 31, 2007</u>		
	Revenues Collected	Rank	Percent of Retail Sales Revenue	Revenues Collected	Rank	Percent of Retail Sales Revenue
McClellan Business Park	\$ 488,250	1	1.22%	\$ 346,732	1	1.13%
San Juan Unified School District	301,539	2	0.75%	202,039	3	0.66%
Carmel Partners, MS#3, The Arbors	188,815	3	0.47%	210,051	2	0.68%
Woodside Association, Inc.	158,492	4	0.40%	119,874	4	0.39%
Autumn Ridge Apartments	153,753	5	0.38%	-	-	-
Twin Rivers Union School District	133,181	6	0.33%	-	-	-
Eskaton Village	121,454	7	0.30%	-	-	-
Fulton-El Camino Rec/Park District	113,033	8	0.28%	111,515	5	0.36%
Sacramento County (AFS/SCRSD)	110,450	9	0.28%	91,078	9	0.30%
Logan Park Apartments	109,977	10	0.28%	-	-	-
Valley Green Apartments	-	-	-	99,040	6	0.32%
BRE Properties	-	-	-	97,350	7	0.32%
Timberlake Association	-	-	-	91,517	8	0.30%
Eskaton Village	-	-	-	90,452	10	0.29%
<b>Total Principal Retail Rate Payers</b>	<b>\$ 1,878,944</b>	<b>-</b>	<b>4.70%</b>	<b>\$ 1,459,648</b>	<b>-</b>	<b>4.75%</b>
<b>Total Annual Retail Water Sales Revenue</b>	<b>\$39,976,449</b>	<b>-</b>	<b>-</b>	<b>\$30,729,421</b>	<b>-</b>	<b>-</b>

Source: District.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Long-Term Debt:</b>										
<b>(Dollars in Thousands)</b>										
Series 2004	\$41,750	\$41,706								
Series 2005A	75,265									
Series 2005B	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	\$47,299
Series 2009B			36,873	36,109	34,495	32,732	30,943	29,074	27,120	25,086
Series 2012A						30,760	28,646	26,516	24,351	22,117
Total Debt	121,520	118,266	116,378	113,194	109,795	112,045	107,838	103,529	99,094	94,502
<b>No. of Connections</b>	43,998	44,091	44,147	44,185	44,655	44,776	45,391	46,112	46,414	46,650
<b>Debt Per Connection</b>										
<b>(Whole Dollars)</b>	\$ 2,762	\$ 2,682	\$ 2,636	\$ 2,562	\$ 2,459	\$ 2,502	\$ 2,376	\$ 2,245	\$ 2,135	\$ 2,026

Source: District

**Sacramento Suburban Water District  
Statistical Information (Unaudited)**

Schedule of Net Revenues

Last Ten Years

(Dollars in Thousands)

	2007	2008	2009	Restated 2010	Restated 2011	2012	Restated 2013	Restated 2014	2015	2016
<b>Revenues</b>										
Water sales	\$ 30,730	\$ 35,383	\$ 38,423	\$ 38,634	\$ 37,694	\$ 39,095	\$39,709	\$37,811	\$37,692	\$39,977
Water transfers	-	-	2,347	637	-	-	536	-	-	-
Wheeling charge	146	295	149	273	303	170	6	6	6	167
Water services	734	1,129	970	991	960	946	1,068	1,113	992	939
Facility development charges	487	1,660	424	121	161	380	187	561	543	264
Investment income	2,550	2,738	1,112	1,267	1,052	(3,888)	89	548	458	558
Other	341	557	392	669	468	360	399	394	364	285
<b>Total revenues</b>	<b>34,988</b>	<b>41,762</b>	<b>43,817</b>	<b>42,592</b>	<b>40,638</b>	<b>37,063</b>	<b>41,994</b>	<b>40,433</b>	<b>40,055</b>	<b>42,190</b>
<b>Operating Expenses</b>										
Transmission and distribution	3,973	3,544	3,838	3,583	3,997	3,596	3,886	3,642	3,621	3,973
Administrative and general*	5,225	6,082	5,813	10,293	6,142	6,156	5,919	6,100	6,120	6,818
Pumping	3,582	3,253	3,461	3,265	3,341	4,238	4,706	4,632	5,124	4,852
Water purchases	1,599	1,843	2,334	2,290	2,663	2,039	406	67	57	2,471
Customer accounts	726	919	959	968	1,003	976	1,086	1,122	1,159	1,145
Water conservation	286	483	490	415	202	295	321	400	773	587
<b>Total expenses</b>	<b>15,391</b>	<b>16,124</b>	<b>16,895</b>	<b>20,814</b>	<b>17,348</b>	<b>17,300</b>	<b>16,324</b>	<b>15,963</b>	<b>16,854</b>	<b>19,846</b>
Net revenue	19,597	25,638	26,922	21,778	23,290	19,763	25,670	24,470	23,201	22,344
Debt service	7,933	9,034	8,095	7,974	7,829	7,576	7,429	7,468	7,425	7,521
<b>Coverage ratio</b>	<b>2.47</b>	<b>2.84</b>	<b>3.33</b>	<b>2.73</b>	<b>2.97</b>	<b>2.61</b>	<b>3.46</b>	<b>3.28</b>	<b>3.12</b>	<b>2.97</b>
Revenues available for capital projects and other purposes	<u>\$11,664</u>	<u>\$ 16,604</u>	<u>\$ 18,827</u>	<u>\$ 13,804</u>	<u>\$ 15,460</u>	<u>\$ 12,187</u>	<u>\$ 18,240</u>	<u>\$ 17,002</u>	<u>\$ 15,776</u>	<u>\$ 14,823</u>

\* 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

<b>Year</b>	<b>Population</b>	<b>Personal Income (\$ in 000s)</b>	<b>Per Capita Income</b>	<b>Labor Force</b>	<b>Number Employed</b>	<b>Number Unemployed</b>	<b>Unemployment Rate</b>
2016	Information Not Currently Available			697,100	659,600	37,500	5.40%
2015	1,501,335	\$ 69,870,482	\$ 46,539	689,000	647,600	41,400	6.00%
2014	1,481,474	\$ 65,391,250	\$ 44,139	683,000	633,300	49,800	7.30%
2013	1,463,149	\$ 62,440,643	\$ 42,162	681,900	621,400	60,500	8.90%
2012	1,448,771	\$ 60,721,694	\$ 41,913	682,300	610,600	71,700	10.50%
2011	1,435,601	\$ 57,564,251	\$ 40,098	680,000	597,700	82,300	12.10%
2010	1,421,838	\$ 54,673,384	\$ 38,453	683,100	597,000	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%

\* Information for Demographic and Economic Statistics is provided for the County of Sacramento since the District is located solely within the County and such information is not available specifically 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, 2016

December 31, 2006

<b>Principal Employers</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total Labor Force</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total Labor Force</b>
State of California	73,676	1	10.57%	67,467	1	10.09%
Sacramento County	11,950	2	1.71%	14,408	2	2.15%
UC Davis Health System	10,145	3	1.46%	7,901	3	1.18%
U.S. Government Sutter Health Sacramento Sierra Region	10,007	4	1.44%	-	-	-
Kaiser Permanente	8,905	5	1.28%	-	-	-
Dignity Health	8,885	6	1.27%	6,656	6	1.00%
Intel Corp.	7,853	7	1.13%	4,897	10	0.73%
Elk Grove Unified School District	6,000	8	0.86%	7,000	4	1.05%
City of Sacramento Sacramento City Unified School District	5,863	9	0.84%	-	-	-
Los Rios Community College	4,300	10	0.62%	5,105	9	0.76%
San Juan Unified School District	-	-	-	7,000	4	1.05%
Los Rios Community College	-	-	-	6,000	7	0.90%
San Juan Unified School District	-	-	-	5,775	8	0.86%
<b>Total</b>	<b>147,584</b>		<b>21.17%</b>	<b>132,209</b>		<b>19.77%</b>
<b>Total Labor Force</b>	<b>697,100</b>			<b>668,800</b>		

\* 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 2016, Vol. 33, No. 44, p.19.

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)

Year	<u>North Service Area</u>			<u>South Service Area</u>			Total Production
	Surface	Ground	Sub Total	Surface	Ground	Sub Total	
2016	11,025	5,679	16,704	423	12,185	12,608	29,312
2015	80	15,702	15,782	-	11,720	11,720	27,502
2014	-	18,790	18,790	-	13,771	13,771	32,561
2013	409	21,869	22,278	-	16,276	16,276	38,554
2012	4,096	17,697	21,793	6,463	9,833	16,296	38,089
2011	12,626	7,738	20,364	4,084	11,381	15,465	35,829
2010	15,518	6,522	22,040	2,289	13,654	15,943	37,983
2009	8,211	10,203	18,414	3,872	12,817	16,689	35,103
2008	12,238	6,984	19,222	2,743	16,530	19,273	38,495
2007	3,842	21,838	25,680	3,701	16,091	19,792	45,472

Source: District.

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

<b>Year</b>	<b>California American Water Company</b>	<b>Citrus Heights Water District</b>	<b>Rio Linda / Elverta Water District</b>	<b>City of Sacramento</b>	<b>County of Sacramento</b>	<b>San Juan Water District</b>	<b>Total Deliveries</b>
2016	251	-	-	-	-	13	264
2015	-	-	-	-	-	51	51
2014	-	-	11	104	-	-	115
2013	-	17	-	331	-	-	348
2012	584	-	25	28	5	-	647
2011	2,103	1	2	-	-	-	2,106
2010	1,628	1	3	-	-	-	1,632
2009	567	10	11	-	-	-	588
2008	1,407	49	2	-	-	-	1,458
2007	430	19	109	-	-	-	558

Source: District.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b><u>Production Department</u></b>										
<b><u>Service Orders</u></b>										
Preventive Maintenance:										
-- Work Orders Completed	16,896	16,338	15,012	15,130	16,580	15,364	15,427	11,988	11,194	8,266
Corrective Maintenance:										
-- Work Orders Completed	272	433	251	237	175	281	210	242	161	142
<b><u>Water Quality</u></b>										
Complaints	272	287	179	214	131	137	174	30	1	13
Inquiries	182	28	88	90	114	159	171	110	159	197
<b><u>Distribution Department</u></b>										
<b><u>Service Orders</u></b>										
Main Leaks	96	92	87	76	82	64	77	61	70	66
Service Line Leaks	217	171	147	199	232	268	242	125	101	75
Locate & Expose	401	311	375	507	320	332	253	353	253	208
Determine Responsibility	1,852	1,512	1,785	1,346	1,557	1,770	1,891	839	630	654
Water Main Shutdown:										
-- Emergency	67	69	99	85	83	99	110	86	27	29
-- Scheduled	91	90	84	76	125	160	170	100	32	13
<b><u>Preventive Maintenance</u></b>										
<b><u>Program</u></b>										
Fire Hydrants Inspected	6,038	45	-	-	437	1,248	1,237	1,255	1,597	251
Fire Hydrant Valves Inspected	-	-	-	-	-	-	-	1,202	1,508	247
Fire Hydrants Valves Exercised	-	-	-	-	-	-	-	975	1,385	225
Valves Inspected	1,138	5,287	2,602	1,235	442	1,406	923	898	434	880
<b><u>Underground Service Alert</u></b>										
Reviewed	13,291	15,624	13,184	13,513	14,114	15,100	16,058	14,614	18,529	20,811
Marked	3,683	6,232	5,034	4,267	5,344	4,848	5,233	4,369	5,074	4,444
<b><u>After Hours Activity</u></b>										
Calls Received	1,117	966	857	810	925	1,012	1,012	1,024	1,145	741
Calls Responded	472	358	318	322	437	433	367	338	605	422
Average Call Time Hours	-	-	-	-	-	-	-	2	2	2
Overtime Hours	-	-	-	-	-	-	-	880	1,034	748

Source: District.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b><u>Field Services Department</u></b>										
<i>Meters</i>										
Preventive Maintenance -- Meters Tested	155	190	197	142	53	150	135	57	32	128
Preventive Maintenance -- Meters Replaced	150	166	258	804	268	189	644	143	117	1,159
Preventive Maintenance -- Meter Re-Builds	-	-	-	-	-	-	-	67	43	240
<b><u>Customer Service</u></b>										
Shut Off (non-payment)	3,841	4,115	3,221	2,940	3,127	2,158	2,066	2,561	2,051	1,804
Restore Service	1,708	2,552	2,272	2,004	1,799	1,976	1,451	2,100	1,801	1,742
Customer Pressure Inquiries	-	-	-	-	-	-	-	121	113	143
<b><u>Field Operations Department</u></b>										
Service Requests Generated	12,921	17,804	17,963	15,761	21,221	23,026	18,641	22,736	24,204	16,092
Work Orders Generated	7,785	5,338	9,972	12,187	15,625	12,382	14,460	11,939	10,898	12,417

Source: District.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	8	8	8	8	8	8	8	10	10	10
Customer Service	6	6	6	6	6	6	6	5	5	5
Engineering	9	9	9	9	9	9	10	10	10	10
Production and Water Treatment	13	14	14	14	15	15	13	15	15	14
Distribution	23	23	23	23	23	23	22	22	22	23
<b>Total</b>	<b>59</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>61</b>	<b>61</b>	<b>59</b>	<b>62</b>	<b>62</b>	<b>62</b>

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 29, 2017.

**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*

March 29, 2017



## Finance and Audit Committee Agenda Item: 2

**Date:** March 27, 2017

**Subject:** Finance and Audit Committee Mission Statement and Charter

**Staff Contact:** Daniel A. Bills, Finance Director

### **Recommended Committee Action:**

Receive report on the Finance and Audit Committee Mission Statement and Charter and provide direction to staff as necessary.

### **Discussion**

In the course of performing its governance responsibilities, the Board of Directors must review subjects requiring more attention than can be addressed during Regular Board meetings. Recognizing this need, the Board created several committees to focus on specific topics. One of these committees is the Finance and Audit Committee which was formed to address accounting and financial planning issues facing the District.

This standing committee has had a Mission Statement and Charter to provide guidance and document the levels of authority assigned to it by the Board since August 2003. As the Mission Statement and Charter were last updated in August 2007, staff is asking the Committee to review the document and recommend changes, if any, to the full Board for review and approval. Staff has no recommended changes at this time.

### **Strategic Plan Alignment:**

Finance – 4.A,B,E. The Finance and Audit Committee provides input and guidance to District staff to utilize internal controls, planning tools, procedures and cash and investment oversight and administer prudent financial practices in order to meet the District's needs and maintain reserves within District policies.



Sacramento Suburban Water District

**Finance & Audit Committee  
Mission Statement & Charter**

Effective: August 18, 2003  
Revised: May 15, 2006; August 20, 2007

**Status:** Standing Committee  
**Meeting Times:** Varies, as required  
**Staff Contact:** Dan Bills, District Treasurer

**100.00 Mission Statement:**

**100.10 Finance**

To provide an oversight function and an avenue of communication between District finance staff and the Board of Directors regarding all District financial matters.

To review and recommend policies and procedures covering District capital structure, debt financing, cash management, investments, capital assets, reserve position, and financial risk management.

To submit an annual capital and operating budget to the Board of Directors for consideration and approval.

To review and recommend policies and procedures covering directors', officers', and employee expense accounts, perquisites, and use of District assets.

To monitor and recommend changes to the District Ethics Policy covering all Directors and District personnel.

**100.20 Audit**

To provide an open avenue of communication among the District finance staff, auditors, and Board of Directors.

To recommend the engagement of outside independent auditors and internal auditors.

To review external audit reports and periodic financial statements.

To review legal, regulatory and other matters that may have a material effect on the District's financial position, compliance policies and/or programs and to recommend actions concerning these matters to the full Board.

## **200.00      Charter**

### **200.10      Purpose and Authority**

The Finance and Audit Committee (Committee) is established to assist the Board of Directors in fulfilling its oversight responsibilities in all areas of District financial responsibilities including capital structure, debt financing, capital expenditures, cash management, banking activities and relationships, investments, annual budgets, integrity of the District's financial reporting process, system of internal controls over financial reporting, audit process, process for monitoring compliance with financially-related laws and regulations, and the District's Ethics Policy. The Committee provides an open avenue of communication between financial management, internal auditors (if any), external auditors and the Board.

Any action taken by the Committee pursuant to the power and authority conferred under this Charter will for all purposes constitute an action taken by the Board of Directors and may be certified as such by the District Secretary. Notwithstanding the power and authority of the Committee to act on behalf of the Board of Directors with respect to such matters, the Committee, in its discretion, may submit any such matter, along with its recommendation with respect thereto, to the full Board of Directors for consideration and approval.

In its discretion and at any time, the full Board of Directors may direct the Committee to bring certain matters delegated to the Committee to the full Board for consideration and approval. The full Board also may abrogate any power or duty delegated to the Committee under this Charter or delegate any new power or duty.

### **200.20      Composition**

The Committee will consist of at least two members of the Board of Directors. Committee members are appointed by and serve at the discretion of the President of the Board of Directors.

### **200.30      Meetings**

The Committee will meet as required, with special meetings as the Committee Chair or President of the Board of Directors may direct. The Committee may invite members of management, auditors or others to attend meetings and provide pertinent information. The Committee may hold closed sessions in accordance with the requirements of the Brown Act.

## **200.40 Responsibilities**

The Committee will formulate policy and procedures, review with District staff and recommend for approval existing or proposed policies and actions to the full Board of Directors, any and all strategies, plans, policies and actions related to District finance. The matters within the scope of the Committee's authority will include but are not limited to the following:

### **200.40.10 Financial**

1. Recommending policies and actions concerning District capital structure, debt financings, capital expenditures, reserve balances and requirements, investments, and cash management, including the establishment and maintenance of bank, investment and brokerage accounts.
2. Reviewing an annual capital and operating budget and providing feedback to staff.
3. Considering and recommending methods of acquiring or holding interests in District property, fixed assets or contributed capital. Inquiry will be sought into any unusual methods of acquiring title to or holding such property.

### **200.40.20 External Audit**

1. Reviewing the annual audited financial statements with the external auditors and management, including inquiring about major issues regarding accounting and auditing principles and practices, and the adequacy of internal controls that could significantly affect the District's financial statements. All external audit reports shall be presented to the full Board of Directors.
2. Reviewing critical accounting policies and any major changes to accounting policies.
3. Reviewing with management, and the external auditors if necessary, any District newsletter or press release regarding District financial information before such materials are filed.
4. Reviewing with management and/or the external auditors the effect of regulatory and accounting initiatives, as well as reviewing and approving any off-balance sheet structures on the District's financial statements.
5. Reviewing with management and the external auditors significant financial reporting issues and judgments made in connection with the District's financial statements, including the effect of alternative GAAP methods on the District's financial statements.

#### 200.40.30 Internal Controls

1. Considering and reviewing with management and the external auditors the effectiveness of the District's internal controls over annual and interim financial reporting, including information technology security and control. These controls will provide reasonable assurance of the integrity of the financial information and assurance that the District's reported financial results are presented fairly in conformity with GAAP.
2. Understanding the scope of the external auditors' review of internal controls over financial reporting and obtaining reports on significant findings and recommendations together with management's responses.

#### 200.40.40 Internal Auditors

1. Recommending to the full Board the appointment of an internal auditor, and reviewing the auditor's performance and recommending the replacement or dismissal of the internal auditor.
2. Reviewing significant internal audit findings reported during the period and their respective impact on internal controls, the control environment and the overall effectiveness and efficiency of the District's operations.

#### 200.40.50 External Auditors

1. Reviewing the external auditors' proposed audit scope and approach, including coordination of external audit effort with internal audit.
2. Recommending to the full Board the appointment or discharge of external auditors.
3. Reviewing the experience and qualifications of the primary partners and staff on the external audit team and the quality control procedures of the firm.
4. Reviewing the external auditors' Management Letter, recommendations, and management's response.
5. With direction from the Board, reviewing and approving the annual budget for all audit and non-audit services from the external auditor, and approving in advance any other fees for non-audit services provided by the external auditor.
6. Reviewing and confirming the independence of the external auditors, including obtaining statements from the external auditor regarding its independence. Discussing relationships between the external auditors and the District with the auditors and considering whether the provision of non-audit services is compatible with maintaining the external auditor's independence.
7. Reviewing and concurring with the General Manager's hiring as an employee or engagement as a contractor any employee of an external

auditor who was engaged on the District account in the most recent two years.

#### 200.40.60. Ethics Policy

1. District staff will monitor compliance with the District Ethics Policy to which all Directors and employees will attest. At least annually, the Committee will receive a report from District staff indicating compliance with the District Ethics Policy.

#### 200.40.70 Compliance

1. Reviewing the effectiveness of the accounting system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
2. Reviewing with management and the external auditors any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the District's financial statements, accounting policies or internal controls, and making recommendations concerning these matters to the full Board.
3. Reviewing the process for communicating the District's Ethics Policy with District staff, for reporting incidents and for monitoring compliance annually.
4. Obtaining regular updates from management and the District's legal counsel regarding legal matters which may have a material impact on the financial statements, including any related-party transactions, and any material reports or inquiries received from regulators or governmental agencies.
5. Conducting or authorizing investigations into any matters within the Committee's charter. With the full Board's concurrence, the Committee is empowered to: (i) retain outside counsel, accountants, or others to advise or assist the Committee in the conduct of an investigation; (ii) seek any information it requires from external parties or employees, all of whom are directed to cooperate with the Committee's requests; (iii) meet with management, external auditors, or outside counsel, as necessary; and (iv) meet with the District's financial advisors, if any.

### **300.00 Reporting**

The Committee's reporting responsibilities will include oral and written reports to the Board of Directors regarding Committee activities, issues and related recommendations and actions. At each regularly scheduled meeting of the Board of Directors, the Chair of the Committee will provide the Board of Directors with a report of the Committee's activities and proceedings.

**400.00 Committee Charter**

The Committee also will perform other activities related to this Charter, including: (i) a review and assessment of the adequacy of the charter at least biennially and request Board approval of any proposed changes; (ii) annual confirmation that the responsibilities outlined in this charter have been carried out; and (iii) ensuring that this charter is posted on the District's website.



## Finance and Audit Committee Agenda Item: 3

**Date:** March 30, 2017

**Subject:** Analysis of Miscellaneous Fees for Special Water Services

**Staff Contact:** Daniel A. Bills, Finance Director

### **Recommended Committee Action:**

Review and comment on the attached Analysis. Direct staff to update Regulation No. 3 in accordance with the analysis, or as amended, and recommend approval to the Board.

### **Discussion**

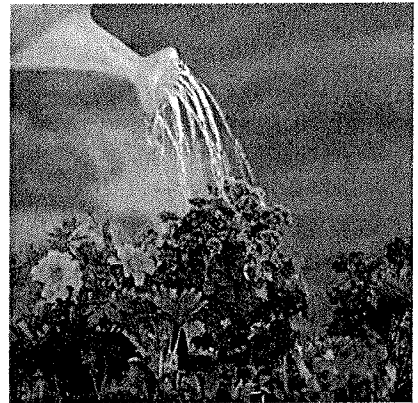
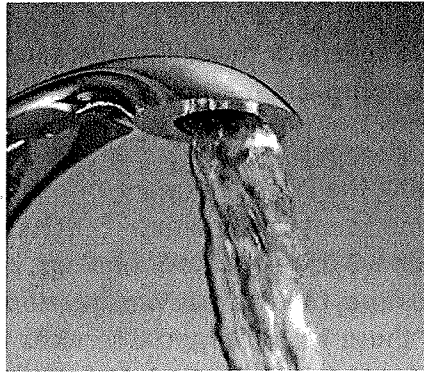
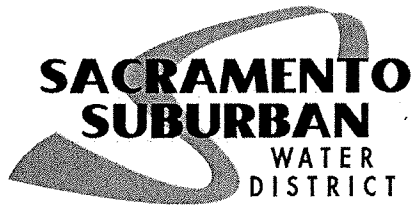
In addition to water rates, the District has a variety of fees it charges certain customers or future customers for special services provided them by the District. These fees are set at the discretion of the Board but must have a cost of service basis for them. As these fees have historically been calculated and supported by various departments over time and as different costs were utilized by each department in supporting certain fees, staff reached out to HDR Engineering, Inc., its water rate consultant, to update and provide a consistent methodology in support of the fees the District charges. A draft report of their recommendations is attached for the Committee's review.

To effectuate changes to the District's current fee structure, the Board would need to amend Regulation No. 3 of the District's Regulations Governing Water Service. Staff is seeking Committee direction to make changes to Regulation No. 3 consistent with the attached Analysis and bring it to the April Board meeting for approval.

### **Strategic Plan Alignment:**

Finance – 4.A,B,E. The Finance and Audit Committee provides input and guidance to District staff to utilize internal controls, planning tools, procedures and cash and investment oversight and administer prudent financial practices in order to meet the District's needs and maintain reserves within District policies.

DRAFT FINAL REPORT



**Sacramento Suburban Water District**  
Analysis of Miscellaneous Fees  
for Special Water Services  
March 2017







March 13, 2017

Mr. Daniel A. Bills  
Finance Director  
Sacramento Suburban Water District  
3701 Marconi Avenue, Suite 100  
Sacramento, California 95821-5346

**Subject:** Sacramento Suburban Water District – Analysis of Miscellaneous Fees for Special Water Services

Dear Mr. Bills:

HDR Engineering, Inc. (HDR) is pleased to present the draft final report on the analysis of the miscellaneous fees for special water services for the Sacramento Suburban Water District (District). A key objective for the District's analysis of the miscellaneous fees was to develop cost-based fees that relate to the special or miscellaneous services which are provided by the District. This report outlines the approach, methodology, findings, and conclusions of the analysis.

This report was developed utilizing the District's salary, benefits, equipment and vehicle rates and management records for time spent on activities. HDR has relied on this information to develop our analyses, from which we developed our findings, conclusions and recommendations. At the same time, the analysis was developed utilizing "generally accepted" utility rate setting principles for these types of special services which result in miscellaneous fees. Finally, this analysis provides to the District a set of miscellaneous fees which are cost-based and defensible to the District's utility customers.

We appreciate the assistance provided by the District in the development of this analysis. More importantly, we appreciate the opportunity to continue our working relationship with the District on this project.

Sincerely yours,  
HDR Engineering, Inc.

A handwritten signature in black ink, appearing to read 'Tom Gould', written in a cursive style.

Thomas E. Gould  
Vice President  
HDR's Business Leader for  
Finance and Rates

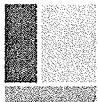


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## Technical Appendices:

- Miscellaneous Fee Calculations
- District Regulation No. 3 (Edited)



# 1.0 Overview of Miscellaneous Fees for Special Water Services

## 1.1 Introduction

HDR Engineering, Inc. (HDR) was retained by the Sacramento Suburban Water District (District) to provide a review and update of miscellaneous fees for special water services. These miscellaneous fees are for the special services which are detailed in the District's Regulation No. 3, Water Service Charges and Rates, adopted on June 15, 2015. This analysis and report addresses the District's miscellaneous fees and provides an update to the miscellaneous fees contained within Regulation No. 3. It is important to note that this study is not an update of the rates and charges for "water service" which are detailed in Section A of Regulation No. 3.

There are "generally accepted" accounting and rate-setting practices that are used in developing cost-based water rates. In contrast to water rates, for miscellaneous fees, such as those being reviewed within this technical analysis, there is no clear industry prescribed methodology. However, in general, the fee charged should recover the direct and indirect costs of the particular service or item being provided. This costing and pricing philosophy has been used in the review of the District's miscellaneous fees.

## 1.2 General Rate-Setting Practices for Miscellaneous Fees for Special Water Services

Fees for special water services are developed and adopted by utilities to fairly assign or charge the customers that are benefitting from that service. At the same time, by establishing fees for these special services, the District is sheltering ratepayers from the cost of these special services. Absent these miscellaneous fees, the cost of these services would be absorbed and collected within the District's water rates. In this case, in order to maintain equitable rates to the District customers, those customers who utilize these special or miscellaneous services are assessed (i.e., charged) the costs incurred by the utility in providing those services.

By charging for a particular service, the District can also better manage the demand for that service. For example, this can best be illustrated when, in the absence of any fees or charges, there may be an overuse of a service (e.g. turn-on/turn-offs). By assessing a cost-based fee, the customer will presumably make a rational and disciplined decision concerning their need for the special service. Ultimately, fees for special services are a reasonable way to minimize costs of the utility for the majority of customers, while allocating costs to customers who are directly benefitting. This practice follows generally accepted cost of service principles in rate and fee setting.

Typically, such fees for special services are established where:

- The user of a service is readily identifiable and separate from the overall customer base
- The type of service and its cost can be determined with reasonable ease and accuracy
- The utility may want to encourage or discourage certain behaviors.

The utility, in exchange for payment of a fee for special services, must provide a direct benefit to a customer that is not shared by other customers of the utility. In some cases, when there is mutual benefit, the cost of the service provided may be discounted.

It is recommended that miscellaneous fees for special services be determined such that a flat, cost-based charge can be assessed for most services. Administratively, this is the most cost-effective approach to managing miscellaneous fees for special services and revenue. An average cost associated with providing the various services can usually be reasonably determined. Where cost differentials between services do not warrant a separate charge, groups of services may be combined and a standard rate be established, thereby simplifying the system of fees and their administration. In most circumstances this administrative simplification is feasible. Occasionally a utility must establish a fee or charge as a cost-based "deposit" and track the utility's actual cost in providing the service (for large repairs or installations). Once the service is completed, the utility either returns a balance of the fee "deposit" to the customer or charges an additional amount if the actual costs exceed the pre-determined average cost. This "time and materials" approach to billing for special services requires staff time and invoice tracking, and in general, is less preferred from an administrative cost and efficiency perspective, except for the occasional and unusual project where it is necessary.

The typical process for determining a cost-based service fee is to establish, on average, the cost of the following items in providing a special service:

- Labor and benefits
- Equipment and materials necessary to complete the service
- Inventory handling – 10%-20% of materials cost for handling and inventory management
- Allocated overhead (including, but not limited to office space rental or equivalent, utilities, facilities charges)
- Training, travel, and supervision
- Administration costs/billing costs/postage
- Any relevant business and occupation or excise taxes that the District is required to pay on fee revenue

Several of these items are further described below to clarify the costs to be included.

**Labor and Benefit Hourly Rates** – An hourly rate for labor is typically developed through the budget process or equipment rental fund program. The hourly rate can be based on average range of the particular personnel category. These hourly rates should include an overhead rate for the District as part of capturing the total costs to be included for personnel performing the service. This would include benefits, training and indirect costs.

**Equipment Hourly Rates** – An hourly rate for equipment is typically developed through an equipment rental fund or program. The hourly rate can be based on annual depreciation cost and operating and maintenance costs related to each piece of equipment. These charges can be compared to published rates (such as the California State Transportation Agency,

Department of Transportation Division of Construction, “Labor Surcharge and Equipment Rental Rates”) to verify their reasonableness.

**Vehicle Hourly Rates** – An hourly rate for vehicles is typically developed through an internal service or equipment rental fund or program. The hourly rate can be based on annual depreciation cost and operating and maintenance costs related to each vehicle, such as repairs, fuel, etc. These charges can be compared to published rates (such as the California State Transportation Agency, Department of Transportation Division of Construction, “Labor Surcharge and Equipment Rental Rates”) to verify their reasonableness. Some utilities charge direct maintenance and fuel costs based on the past year’s activity. However, this approach can cause the hourly rates to fluctuate dramatically between years when a large repair has been performed on a piece of equipment. An alternative method to calculating the hourly rates can be to base the maintenance and fuel charges on an historical rolling average for repairs and fuel (related to average annual usage) and adjust those costs by local Consumer Price Index (CPI) each year.

**Overhead Rates** – Typically an overhead rate incorporates all indirect costs including accounting, billing, administration, engineering support, utility expenses (light, heat, etc.), facilities maintenance, and janitorial services.

A few other costs that sometimes are included are the training, related travel and certifications that are necessary for staff to perform the service(s). While these are not a large portion of total cost, and therefore are not critical, they still represent costs incurred by the utility in order to provide the service and can be included for full cost recovery. Any certifications are most likely required for other utility duties that the staff performs, which benefits the general customer base. Regardless, there is a portion of these training-related costs that can be allocated to relevant miscellaneous fees.

Once the above cost components have been determined, they are added together to determine the full cost recovery fee for each miscellaneous service. In some cases a district or utility may decide to subsidize some portion of the fee for various reasons (equity, ability to pay, shared benefit from utility customers, economic development concerns, etc.). Any variance from a cost-based fee must first be determined to be legal with any applicable laws or statutes, and then, on a policy basis, from the utility’s governing body.

It should be noted that the District’s miscellaneous fees are in Regulation No. 3 which were established for a four year period of January 1, 2015 to January 1, 2018.

### **1.3 Review of the District’s Miscellaneous Fees**

The District’s miscellaneous fees for special water services were reviewed in detail by HDR. Special water services are often related to one-time activities, not directly collected or assessed within rates. For example, account turn-ons, turn-offs, meter testing, etc. are examples of these special water services.

The typical process for determining a cost-based fee for a special service is to establish, on average, the typical unit costs for labor, benefits, overhead and other relevant costs (e.g.

inventory, vehicles, etc.). HDR worked with the District to update these unit costs. For each fee for special water services the unit costs were appropriately applied and the miscellaneous fee updated. The report provides a detailed listing of the present and proposed miscellaneous fees for special water services.

It should be noted that based upon HDR's review of the District's miscellaneous fees it is recommended to move the "Multiple Unit Charge" from Section N of Regulation 3, to Section A of Regulation 3 since the Multiple Unit Charge is a charge (i.e., rate) for water service and likely is a Proposition 218 rate. This reorganization of Regulation 3 is intended to provide greater clarity on "Charges for Water Service" compared to miscellaneous service charges which are reviewed as a part of this study. It is HDR's understanding that miscellaneous service fees do not fall within the legal requirements of Proposition 218.<sup>1</sup>

In addition to the existing miscellaneous fees reviewed as a part of this study, new miscellaneous fees for special water services were reviewed and one new fee was added: to the Cross Connection Control Program.

- Cross Connection Control Program - Backflow Prevention Assembly Tag

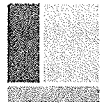
In establishing and proposing the new miscellaneous fees, each new fee was developed using the same cost-basis approach as was used for the update of the existing miscellaneous fees.

## 1.4 Summary

This report has provided a detailed review of the District's miscellaneous fees for special water services. The analyses contained herein were developed using "generally accepted" rate setting and financial management principles and methodologies. The findings, conclusions and recommendations from this study will provided the District Board with the tools and information to keep the utility operating on a financially sound basis.

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<sup>1</sup> In making this statement, HDR is not providing a legal opinion in relation to miscellaneous fees and Proposition 218. The District should review this issue with their legal counsel to assure compliance with any legal requirements.



## 2.0 Review of the Miscellaneous Fees for Special Water Services

### 2.1 Introduction

Special water services are often related to one-time activities not directly collected or assessed within rates. For example, account turn-ons, turn-offs, meter testing, etc. are examples of these special charges. This section of the report will review the detailed analysis undertaken to review the special water services associated with the water utility.

Provided within this section of the report is a review of the current miscellaneous fees and the process used to update these fees. Updated or revised fees have been proposed for possible adoption by the District.

Miscellaneous fees for special water services are developed by utilities to fairly assign or charge the customers that are benefitting from that service.

### 2.2 Overview of the General Approach Used to Review the Miscellaneous Fees

As a part of this study, the following cost components were reviewed and updated. The cost components included within HDR's study are consistent with the District's past reviews and updates of their miscellaneous fees. The cost components reviewed as a part of this study included the following:

- Labor and benefits
- Equipment and materials necessary to complete the service
- Inventory handling – 10%-20% of materials cost for handling and inventory management
- Allocated overhead (including, but not limited to office space rental or equivalent, utilities, facilities charges)
- Training, travel, and supervision
- Administration costs/billing costs/postage
- Any relevant business and occupation or excise taxes that the District is required to pay on fee revenue

The cost of each of these items was determined for the District and then applied appropriately for each miscellaneous fee (e.g. # of hours to provide a service x the hourly rate). The various cost components for each service were then added together to determine the total miscellaneous fee for special water services.

### 2.3 Existing Miscellaneous Fees for Special Water Services

The Board held a public hearing on March 15, 2004, in accordance with the requirements of Proposition 218 and after the close of the hearing, adopted Ordinance 2004-01, enacting Regulation 3 restructuring and increasing water rates and charges. The Board on April 19, 2004

in an effort to adopt and to codify all regulations governing its provision of water service into a uniform code entitled “Regulations Governing Water Service” adopted Ordinance 2004-02 amending Ordinance 2004-01 and adopting water service regulations 1, 2, 4 through 6 and 8 through 17. Through the public Proposition 218 process, the Board of Directors adopted the Regulations Governing Water Service by Ordinance No.2004-03 on July 19, 2004. On a regular basis, the District’s regulations are reviewed and approved by resolution and amended as appropriate. The various regulations are summarized below.

- Regulation No. 3 Water Service Charges and Rates
- Regulation No. 5 Billing, Payments, and Miscellaneous Charges
- Regulation No. 6 Disconnection and Restoration of Service
- Regulation No. 7 Service Connections
- Regulation No. 9 Extensions of and Additions to District Facilities
- Regulation No. 10 Annexation of Improvement Districts
- Regulation No. 12 Temporary Service
- Regulation No. 15 Water Conservation
- Regulation No. 17 Procedures for Variance Application

Regulation No. 3, Water Service Charges and Rates, contains the miscellaneous service charges which were reviewed as a part of this study. Regulation 3 also contains the District’s rates which were not reviewed as a part of this study.

Table 2-1 provides a listing of the District’s current adopted miscellaneous fees for special water services as of January 1, 2017.



**Table 2-1  
Existing Miscellaneous Fees for Special Water Services <sup>[1]</sup>**

<b>Type of Special Service</b>	<b>Fee (\$)</b>
<b>Service Charges</b>	
Service charge with water service already on	\$5.00
Service charge, regular business hours, restoration of water	25.00
Dispatching personnel to deliver delinquency notice (Reg. 5 & 6)	35.00
Dispatching personnel to terminate water service (Reg. 5 & 6)	50.00
Temporary turn-on charge	30.00
<b>Cross-Connection Control Program</b>	
CCCP monthly charge (\$/month per assembly)	\$2.00
Test backflow prevention assembly (\$/per assembly)	72.00
Backflow prevention assembly tag (Reg. 3, p.4)	1.00
<b>Security Deposits</b>	
Residential (> of 2 months water charge at ¾" flat base or \$90.00)	\$90.00
Commercial (> of 3 X water bill at 1" base meter or \$180.00)	180.00
<b>Application Payments</b>	No fee
<b>Returned Payments (Fee + Actual Bank Service Charge) (Reg. 5)</b>	\$7.00
<b>Meter Testing Fee</b>	
Small meter (1" and below) per meter	\$65.00
Medium meter (1-1/2" & 2" meters)	125.00
Large meter (3" and above) per meter	235.00
<b>Bacteriological Testing (Assess actual time and material costs not less than Minimum, per test) (Reg. 7)</b>	\$25.00
<b>Water Conservation Violation (Reg. 15)</b>	
Second water violation added to next bill	\$50.00
Third water violation added to next bill	100.00
<b>Variance Application Service Fees (Reg 17)</b>	
Filing of variance service fee (Reg 17B)	\$300.00
Hearing request with Board of Director's (Reg 17E)	1,200
<b>Multiple Unit Charge Per Unit Charge as of 1/01/17</b>	\$9.03
<b>Facility Use Fees</b>	District Cost
<b>Public Information Request (per page plus any additional costs)</b>	\$0.10
<b>Construction Water Charge (Reg. 12) <sup>[2]</sup></b>	
Construction water via District fire hydrant meter, <u>per 100 cf</u>	\$1.10
Illegal use of District fire hydrants	100.00
<b>Plan Check Fee (\$/hour and \$900 minimum) (Reg 7)</b>	\$90.00
<b>Supervision and Inspection, <u>deposit</u> (Reg 7) <sup>[3]</sup></b>	\$75.00
<b>Hydrant Flow Test</b>	\$350.00

*(continued on next page)*

Type of Special Service	Fee (\$)
<b>Abandonment Service &amp; Reinstallation of Abandoned Service (Reg. 7)</b>	\$3,000
<b>Administration Fee</b>	District Cost
<b>Locking Device Replacement Fee</b>	
Lock	\$10.00
Standard Locking Device	25.00
Advanced Locking Device	35.00

[1] Regulation No. 3 Water service charges and rates as of June 15, 2015.

[2] Construction water charges include a \$50.00 permit fee and \$2,300 deposit.

[3] Supervision and inspection minimum of \$600.00

Within generally accepted rate setting principles and guidelines, it is recommended that all miscellaneous fees for special services be updated annually by inflation, adjusted by the local Consumer Price Index (CPI), in order to keep the fees current. The District should consider including this language within their ordinance and regulations governing water services in addition to their current rate setting practice of adopting rates for a four year period.

The next section describes the update of the existing miscellaneous fees and the review of new (additional) fees for possible addition within Regulation 3.

## 2.4 Update of the District's Miscellaneous Fees

In reviewing and updating the District's miscellaneous fees and special charges, the District provided to HDR an Excel™ file with updated salary and benefits for 2016 for personnel categories; 2016 equipment listing cost, and the 2015 cost determination of miscellaneous fees. The 2015 cost determination detailed personnel, equipment, and vehicle cost along with the estimate of any additional material costs. The 2015 cost determination did not detail equipment used, but instead used a general rate. The 2016 equipment listing was reviewed and determined to bundle equipment as shown in the listing for saws, pumps, trailer, and jack hammer which total \$8.97. The \$8.97 was included in the updated calculation for an equipment hourly rate. The 2016 equipment listing was reviewed and an average truck rate was shown to be \$22.76. This same rate coordinated with the rate used by District staff for the Cross Connection Control Program calculations. Therefore \$22.76 per vehicle hour was used in the update. From this information the miscellaneous fees and special charges were developed based on an estimated personnel time for the required task, along with any equipment or vehicle requirements. These were reviewed by HDR and provided by the District in the 2015 cost determination file, along with communication with District staff. In summary, the miscellaneous fees were updated to reflect current salary, benefits, vehicles and other costs associated with the charge. In addition the time and materials associated with the charge were reviewed with the District.

Given the above costs, an "overhead" rate was not applied to these costs at this time. This type of additional cost could be added to recover additional indirect costs such as accounting, billing,

administration, engineering support, utility expenses (light, heat, etc.) facilities maintenance and janitorial services. These costs are not a large portion of total cost and therefore are not critical.

Miscellaneous fees that are “penalty” fees were reviewed for reasonableness and were determined to be within the realm of fees seen in other utilities. These included the Water Conservation Violation of \$50 for the first violation and \$100 for the second violation, and the Illegal Use of Fire Hydrants at \$100.

Miscellaneous fees that are “limited use” fees such as the Plan Check Fee, Supervision and Inspection, Hydrant Flow Test, Service Line Charge, Service Line Location and Abandonment of Service and Reinstallation of Abandoned Service were kept at the current level,

Table 2-2 provides the existing miscellaneous fees for special services for the District.

**Table 2-2  
Current and Proposed (Updated) Miscellaneous Fees for Special Water Services [1]**

Type of Special Service	Current Misc. Fee	Proposed Misc. Fee
<b>A. Charges for Water Service</b>	See Regulation 3A	Not part of scope
<b>B. Service Charges</b>		
Service charge with water service already on	\$5.00	\$9.00
Service charge, regular business hours, restoration of water	25.00	31.00
Dispatching personnel to deliver delinquency notice (Reg 5 & 6)	35.00	35.00
Dispatching personnel to terminate water service (Reg 5 & 6)	50.00	60.00
<b>C. Temporary Turn-On Charge</b>	\$30.00	\$40.00
<b>D. Cross Connection Control Program</b>		
CCCP monthly charge (\$/month per assembly)	\$2.00	\$2.20
Test backflow prevention assembly (\$ per assembly)	72.00	75.00
Backflow prevention tag fee (\$ per tag)	1.00 per tag	1.00 per tag
<b>E. Privately-Owned Fire Protection System</b>	See Regulation 3E	Not part of scope
<b>F. Security Deposits</b>		
Residential (> of 2 months water charge at ¾" flat base or \$90.00)	\$90.00	\$90.00
Commercial (> of 3 X water bill at 1" base meter or \$180.00)	180.00	180.00
<b>G. Application of Payments</b>	Oldest paid first	Oldest paid first
<b>H. Returned Payments (Fee + Actual Bank Service Charge)</b>	\$7.00	\$10.00
<b>I. Meter Testing Fee</b>		
Small meter (1" and below) per meter	\$65.00	\$60.00
Medium meter (1-1/2" & 2" meters)	125.00	200.00
Large meter (3" and above) per meter	235.00	285.00

*(Continued on Next Page)*

Type of Special Service	Current Misc. Fee	Proposed Misc. Fee
<b>J. Bacteriological Testing</b> (Assess Actual Time and Material Costs Not Less Than Minimum, per test)	\$25.00	\$25.00
<b>K. Annexation Fees</b>	See Regulation 3K	Not part of scope
<b>L. Water Conservation Violation</b>		
Second water violation, added to next billing	\$50.00	\$50.00
Third water violation, added to next billing	100.00	100.00
<b>M. Variance Application Service Fees</b>		
Filing variance application service fee	\$300.00	\$300.00
Hearing request with Board of Director's (special meeting)	1,200.00	1,200.00
<b>N. Multiple Unit Charge</b>	Moved from Regulation 3N	Moved to Regulation 3A
<b>O. Facility Use Fees</b>	Recover District Cost	Recover District Cost
<b>P. Public Information Request</b>	\$0.10 per copy	\$0.10 per copy
<b>Q. Construction Water Charge</b>		
For construction water taken through District hydrant meter	\$1.10 per 100 cubic ft ; permit fee \$50.00; \$2,300 deposit	Current Metered non residential peak usage rate per 100 cubic ft; 90 day permit fee \$50.00; \$2,300 deposit
Illegal use of fire hydrant	\$100.00	\$250.00
<b>R. Plan Check Fee</b>	\$90.00 hourly; \$900 minimum	\$90.00 hourly; \$900 minimum
<b>S. Supervision and Inspection</b>	\$75.00 deposit; 600.00 minimum	\$87.00 hourly rate to calculate deposit; \$600.00 minimum

(Continued on Next Page)

Type of Special Service	Current Misc. Fee	Proposed Misc. Fee
T. Hydrant Flow Test	\$350.00	\$350.00
W. Abandonment of Service, Reinstallation of Abandoned Service	Materials; Minimum \$3,000 each	Materials; Minimum \$3,000 each
X. Administration Fee	Actual District Cost	Actual District Cost
Y. Locking Device Replacement Fee		
Lock	\$10.00	\$10.00
Standard Locking Device	25.00	25.00
Advanced Locking Device	35.00	
Viper Lock		\$16.00
Meter Nut Lock		20.00
McGuard Lock Box		37.00

[1] Regulation No. 3 Water Service Charges and Rates as of June 15, 2015.

It should be noted that it is recommended to move the “Multiple Unit Charge” from Section N of Regulation 3, to Section A of Regulation 3 since the Multiple Unit Charge is a charge for water service and technically appears to be a “rate” which is a Proposition 218 issue. By relocating this section, the District will provide greater clarity to these fees and those which are miscellaneous service fees and those which are rate related.

## 2.5 Review of New (Additional) Miscellaneous Fees for Special Water Services

In addition to our review of the District’s existing miscellaneous fees for special water services, HDR also considered new miscellaneous fees. In this case, new miscellaneous fees are proposed for the following areas:

- Update to Cross Connection Control Program
- Backflow Prevention Assembly Tag

Provided below is a more detailed discussion of each of these miscellaneous fees for special water services and the basis for the proposed changes.

### ■ Cross Connection Control Program and New Backflow Prevention Assembly Tag Fee

Regulation 3.D Cross-Connection Control is within the District’s Regulation 3 and states the following:

*“A monthly charge shall be paid to fund the District’s Cross-Connection Control Program (CCCP). This charge shall be billed monthly to each Landowner whose Parcel contains a Backflow Prevention Assembly (Assembly). The Assembly is the property of the Landowner. The services covered by this charge shall include, but are not limited to, administering the program, monitoring the program, notifying Customers for testing and retesting, compiling results and submittal of results to the State Water Resources Control Board Division of Drinking Water (SWRCBDDW). The charge shall be determined each year based on program expenses and the number of Assemblies within the District. The current monthly charge for the CCCP shall be \$2.00 per Assembly for all connection sizes.*

*If a Customer requests or the District is required to test an Assembly, the District will impose an Assembly test charge of \$72.00 per Assembly, plus labor and materials if repairs are required. The charge includes the fee for the required County tag”*

The Cross Connection Control Program (CCCP) was updated and now contains three fees, a monthly CCCP fee, a Test Backflow Prevention Assembly fee, and a Backflow Prevention Assembly Tag Fee. The Backflow Prevention Assembly Tag Fee is a new fee. The fees were updated to reflect the program’s expenses for administrating and monitoring the program. District staff provided to HDR detailed costs for each of these fees. In addition, the section was edited as follows. The underlined areas are new.

*“Monthly charges shall be paid to fund the District’s Cross-Connection Control Program (CCCP). This charge shall be billed monthly per Backflow Prevention Assembly (Assembly) to each Account-Holder with one or more Assemblies. Each*

*Assembly is the property of the Landowner. The services covered by this charge shall include, but are not limited to, administering/monitoring the program, notifying Customers, performing inspections, reviewing and recording test results, and reporting to the State Water Resources Control Board Division of Drinking Water (DDW). The charge shall be determined each year based on program expenses and the number of Assemblies within the District. The current monthly charge for the CCCP shall be \$2.20 per Assembly for all connection sizes.*

*If a Customer requests Assembly testing or the District determines it is necessary to test an Assembly, the District will impose an Assembly test charge of \$75.00 per Assembly. The charge includes the fee for the required District tag. While the District does not routinely perform repairs or replacements, labor and materials will be charged to the Customer if the District is required to repair or replace an Assembly.*

*As part of the Assembly test, a District tag must be attached to the Assembly indicating whether it “passed” or “failed”. These tags are to be purchased by the account holder at the District’s office. The cost of the tag shall be determined each year based on the cost of producing the tag and overseeing the tag distribution. The current cost shall be \$1.00 per tag.*

Provided below in Table 2-3 are a summary of the proposed new (additional) special charge.

<b>Table 2 – 3 Proposed New (Additional) Miscellaneous Fees for Special Water Services</b>	
Type of Service	Proposed Fee
NEW Miscellaneous Fees	
D. Backflow Prevention Assembly Tag	\$1.00 per tag

As noted above, this charge is intended to be added to the charges shown in Table 2-2 and the new charge is in the Cross Connection Control Program, Section D, of Regulation No. 3 for inclusion in the existing special charges.

## **2.6 Conclusions and Recommendations**

There are a variety of services that a water utility provides. It is important to collect revenue from customers who benefit directly from special services they request, rather than charging the broader customer base, who may not receive any direct or indirect benefit for such services (e.g. turn-ons/turn-offs).

During the course of our review, HDR noted some items for the District’s consideration. These include the following:

- Review equipment that is standard in use when performing on site services to the customer. Develop an equipment rental hourly rate that reflects a general standard of equipment used for these services.



- Verify that vehicle hourly rates recover the full cost of the vehicle, maintenance *and* replacement costs. If not currently available, develop vehicle equipment rental hourly rates to include these costs.
- Verify that training, travel related to required training, and certifications required of the staff performing the services are costs that are included within the service fees. If not, consider adding these costs to the fee calculation.
- Add any relevant State excise taxes that are assessed on miscellaneous service fees to the calculated fees.
- Annually update service fees by the Sacramento area CPI index.

The District has established a special charges schedule for the most important special services.

This study has reviewed, updated and calculated revised miscellaneous fees for special services. At the same time, HDR has recommended a new fee and revised language for Regulation 3. HDR has developed cost-based miscellaneous service fees for the District and HDR would recommend adoption of the proposed fees.

## **2.7 Summary**

This section of the report has reviewed the District's existing miscellaneous fees and updated them to cost-based levels. This report provides the cost-basis and rationale for adoption of revised miscellaneous fees by the District's Board.



**EDITED**  
**Regulation No. 3**  
**Water Service Charges and Rates**

Adopted: March 15, 2004  
 Amended: December 21, 2009; December 19, 2011; January 28, 2013;  
 August 27, 2013; June 15, 2015, July XX 2017

**A. Charges for Water Service**

The District charges all Customers on a monthly basis. Customers billed on a Residential Flat Rate are billed in advance, while Metered Rate Customers are billed in arrears. All charges are based on the District's costs of providing District Water Service. Therefore, the basis for charges and rates are categorized on the same basis as District costs. Explanations of each charge and the related District costs are as follows:

1. Flat Service Charge: This charge is based on connection size. The charge is intended to cover District operations and maintenance fixed costs, attributable to serving Residential Flat Rate Customers.

Usage Charge: This charge is based on Parcel square footage. The charge is intended to cover District operations and maintenance variable costs, attributable to Residential Flat Rate Customers.

<b>Sacramento Suburban Water District</b>						
<b>Flat Rate Customers</b>						
			<b>01/01/15</b>	<b>01/01/16</b>	<b>01/01/17</b>	<b>01/01/18</b>
<b>Usage Charge</b> (\$/1,000 sq. ft.)			\$ 0.95	\$ 0.98	\$ 1.02	\$ 1.06
<b>Flat Service Charge</b>						
3/4" connection			\$ 15.49	\$ 16.11	\$ 16.75	\$ 17.42
1" connection			\$ 22.41	\$ 23.31	\$ 24.24	\$ 25.21
1 1/2" connection			\$ 42.32	\$ 44.01	\$ 45.77	\$ 47.60
2" connection			\$ 41.80	\$ 43.47	\$ 45.21	\$ 47.02

2. Meter Service Charge: This charge is based on meter size. The charge is intended to cover District operations and maintenance variable costs attributable to serving Metered Rate Customers.

Usage Charge: This charge is based on water usage. The charge is intended to cover District operations and maintenance fixed costs attributable to Metered Rate Customers, including the cost of water. The Usage Charge is based on 100 cubic feet of water (748 gallons.).

<b>Sacramento Suburban Water District Metered Rate Customers</b>						
<b>Meter Usage Charge (\$/CCF) – 1CCF = 748 gallons</b>			<b>01/01/15</b>	<b>01/01/16</b>	<b>01/01/17</b>	<b>01/10/18</b>
Non-Residential-Off-Peak Rate (Nov-Apr)			\$ 0.84	\$ 0.88	\$ 0.91	\$ 0.95
Non- Residential. - Peak Rate (May-Oct)			\$ 1.05	\$ 1.09	\$ 1.14	\$ 1.18
Residential - 1st Tier (0-10 CCF)			\$ 0.83	\$ 0.87	\$ 0.90	\$ 0.94
Residential - 2nd Tier (11+ CCF)			\$ 1.04	\$ 1.08	\$ 1.12	\$ 1.17
<b>Meter Service Charge</b>						
5/8" meter			\$ 3.74	\$ 3.89	\$ 4.05	\$ 4.21
3/4" meter			\$ 5.46	\$ 5.68	\$ 5.91	\$ 6.14
1" meter			\$ 8.84	\$ 9.19	\$ 9.56	\$ 9.94
1 1/2" meter			\$ 17.26	\$ 17.95	\$ 18.67	\$ 19.42
2" meter			\$ 27.46	\$ 28.55	\$ 29.70	\$ 30.88
3" meter			\$ 51.17	\$ 53.21	\$ 55.34	\$ 57.56
4" meter			\$ 85.02	\$ 88.42	\$ 91.96	\$ 95.64
6" meter			\$ 169.68	\$ 176.46	\$ 183.52	\$ 190.86
8" meter			\$ 305.14	\$ 317.34	\$ 330.04	\$ 343.24
10" meter			\$ 491.40	\$ 511.06	\$ 531.50	\$ 552.76
12" meter			\$ 728.42	\$ 757.55	\$ 787.85	\$ 819.37

3. Multiple Unit Charge: An additional monthly per unit charge will be imposed on all multi-family accounts (i.e. duplex, triplex, etc.) billed by the District on a flat rate basis as defined below.

<b>Multiple Unit Charge</b>						
			<b>01/01/15</b>	<b>01/01/16</b>	<b>01/01/17</b>	<b>01/01/18</b>
Per Unit Charge			\$ 8.35	\$ 8.69	\$ 9.03	\$ 9.39

4. Capital Facilities Charge (Applies to Residential Flat and Metered Rate Accounts):  
This charge is based on meter or connection size and property location. This charge covers District capital improvement charges and the periodic principal and interest payments due on District debt.

Sacramento Suburban Water District All Customers						
Capital Facilities Charge			01/01/15	01/01/16	01/01/17	01/01/18
5/8" meter			\$ 20.02	\$ 20.82	\$ 21.65	\$ 22.52
3/4" meter or connection			\$ 29.85	\$ 31.04	\$ 32.28	\$ 33.57
1" meter or connection			\$ 49.92	\$ 51.92	\$ 53.99	\$ 56.15
1 1/2" meter or connection			\$ 99.48	\$ 103.46	\$ 107.59	\$ 111.90
2" meter or connection			\$ 159.22	\$ 165.59	\$ 172.22	\$ 179.11
3" meter or connection			\$ 298.79	\$ 310.74	\$ 323.17	\$ 336.10
4" meter or connection			\$ 498.11	\$ 518.03	\$ 538.75	\$ 560.30
6" meter or connection			\$ 995.90	\$ 1,035.74	\$ 1,077.17	\$ 1,120.26
8" meter or connection			\$ 1,792.75	\$ 1,864.46	\$ 1,939.04	\$ 2,016.60
10" meter or connection			\$ 2,888.55	\$ 3,004.09	\$ 3,124.25	\$ 3,249.22
12" meter or connection			\$ 4,282.36	\$ 4,453.65	\$ 4,631.80	\$ 4,817.07

**B. Service Charges**

1. For each new account to be established, a service charge shall be assessed and added to the first or opening water bill for payment in accordance with the following provisions:

Service charge with water service already on. \$9.00

Service charge during regular business hours,  
which requires restoration of water. \$31.00

2. The following dispatch service charges shall be assessed in accordance to Section K.2, Regulation 5 and Section C, Regulation 6:

Dispatching personnel to deliver delinquency notice \$35.00

Dispatching personnel to terminate water service \$60.00

Other than in an emergency, to locate a service or shut-off water service after regular business hours the District will charge its actual cost of time and material.

3. Temporary Turn-On Charge

When water service has been terminated for non-payment or put into an inactive status, and temporary (24-hour maximum) service is required for third-party inspection purposes, a non-refundable charge of \$ 40.00 shall be paid before service is turned on.

**C. Cross-Connection Control Program**

Monthly charges shall be paid to fund the District’s Cross-Connection Control Program (CCCP). This charge shall be billed monthly per Backflow Prevention Assembly (Assembly) to each Accountholder with one or more Assemblies. Each Assembly is the property of the Landowner. The services covered by this charge shall include, but are not limited to, administering/monitoring the program, notifying Customers, performing inspections, reviewing and recording test results, and reporting to the State Water Resources Control Board Division of Drinking Water (DDW). The charge shall be determined each year based on program expenses and the number of Assemblies within the District. The current monthly charge for the CCCP shall be \$2.20 per Assembly for all connection sizes.

If a Customer requests Assembly testing or the District determines it is necessary to test an Assembly, the District will impose an Assembly test charge of \$75.00 per Assembly. The charge includes the fee for the required District tag. While the District does not routinely perform repairs or replacements, labor and materials will be charged to the Customer if the District is required to repair or replace an Assembly.

As part of the Assembly test, a District tag must be attached to the Assembly indicating whether it “passed” or “failed”. These tags are to be purchased by the tester at the District office. The cost of the tag shall be determined each year based on the cost of producing the tag and overseeing the tag distribution. The current cost shall be \$1.00 per tag.

**D. Privately-Owned Fire Protection Systems**

A monthly charge shall be paid for water service at un-metered connections to the District’s Water System that are equipped with a detector check assembly satisfactory to the District and DDW and which supplies water to privately-owned and maintained sprinklers used exclusively for firefighting, irrespective of the quantity of water used and based on the size of the fire service assembly as follows:

<b>Private Fire Service</b>						
<b>Size</b>			<b>01/01/15</b>	<b>01/01/16</b>	<b>01/01/17</b>	<b>01/01/18</b>
2-inch			\$ 11.80	\$ 12.28	\$ 12.77	\$ 13.28
3-inch			\$ 22.15	\$ 23.04	\$ 23.96	\$ 24.92
4-inch			\$ 36.09	\$ 37.53	\$ 39.03	\$ 40.59
6-inch			\$ 71.81	\$ 74.68	\$ 77.67	\$ 80.78
8-inch			\$ 127.04	\$ 132.12	\$ 137.40	\$ 142.90
10-inch			\$ 198.48	\$ 206.42	\$ 214.68	\$ 223.27
12-inch			\$ 221.21	\$ 230.06	\$ 239.26	\$ 248.83

**E. Security Deposits**

Whenever an Applicant's or Customer's credit rating or payment history is or becomes unacceptable to the District because of poor credit history, non-payment of water bills, or frequent delinquent bill payment, a cash deposit may be required in accordance with the schedule set below:

1. Residential Customers shall be required to pay the sum equal to two (2) months water charge, but not less than \$90.00 (cost of ¾" flat base charges).
2. Business Customers shall be required to pay the sum equal to three (3) times the estimated water bill, but not less than \$180.00 (cost of 1" meter base charges).

The District may apply the security deposit to any account of a Customer that is delinquent for more than 30 days and will notify the Customer of such application. Water service may be terminated if the account is not fully paid and the security deposit replenished, subject to the conditions and procedures described in Regulation 6, Section B.

The security deposit will be returned to the Customer without interest upon termination of the service and payment of all rates and charges owed to the District by the Customer, or at such earlier time as the District may determine that the credit of the Customer is satisfactory. Security deposits that remain unclaimed after five (5) years from the date the deposit became refundable will become property of the District.

For the purpose of this Regulation 3, the District shall determine whether a Customer's credit is satisfactory. The credit of a Customer who has paid all rates and charges without delinquency for twelve months shall be deemed satisfactory.

**F. Application of Payments**

Any monies received on an account will be applied first to the oldest outstanding charges.

**G. Returned Payments**

The District shall levy a charge for each returned payment as defined in Regulation 5, Section C. The amount shall be the District's actual Bank Service Charge plus \$10.00.

**H. Meter Testing Fee**

This charge will be assessed to accounts that request a meter test with results within the range set by AWWA per Regulation 4, Section D. The fee will be \$285.00 per meter test for large meters (3" and above), \$200.00 for medium meters (1-1/2" and 2"), and \$60.00 for small meters (1" and below).

**I. Bacteriological Testing**

The District will assess actual time and material costs but not less than a minimum charge of \$25.00 for each bacteriological test as defined in Regulation 7, Section H.8.

**J. Annexation Fees**

The District will charge annexation fees for each Parcel located outside of the District's legal boundaries that desires to be annexed into the District. The fee will be charged on a time and materials basis and reflect all District costs to apply for and complete the annexation of a Parcel, including without limitation staff time, attorneys' and consultant fees, LAFCO application fees, and costs of studies and environmental review. Upon application for an annexation into the District, staff will estimate the costs to process the annexation and the applicant shall deposit the estimated costs with the District. Upon conclusion of the annexation proceedings, if a portion of the deposit remains, it will be refunded to the applicant. If the District has expended the entire deposit and advanced additional funds to pay costs of the annexation proceedings, the applicant will repay the entire amount of any funds advanced by the District as a condition of LAFCO's recording of the Certificate of Completion approving the annexation and of the District's approval of the applicant's Application for Water Service.

**K. Water Conservation Violation**

In accordance with Section B of Regulation 15, the following charges may be imposed for a Water User's violation of the District's water conservation regulations:

1. A charge of \$50.00 will be added to the next billing for serving the second water conservation violation as defined in Regulation 15, Section B.
2. A charge of \$100.00 will be added to the next billing for serving the third water conservation violation as defined in Regulation 15, Section B.

**L. Variance Application Service Fees**

1. A service fee of \$300.00 will be charged to any person or entity for a filing variance application as provided in Regulation 17, Section B.
2. If an Applicant desires a hearing at a special Board of Directors meeting, a fee of \$1,200.00 will be charged as provided in Regulation 17, Section E.

**M. Facility Use Fees**

District Facilities may be used only upon approval of the General Manager. Interested parties must apply for use of District Facilities by completing the District's "Facility Use



Application.” All charges for use of District Facilities, including insurance requirements, are as noted on the Application and are dependent on facility location, event duration and recovery of all District costs required for the event.

**N. Public Information Request**

A charge of \$0.10 per page shall be charged for requests for copying of disclosable District records. Additional charges and terms of reproduction and delivery of copies of records are provided in the District's Records Inspection, Retention and Disposal Policy, PL-Admin 002.

**O. Construction Water Charge**

Water provided by the District for construction purposes will be charged subject to conditions of the service or project and in conformance with Regulation 12. The following charges will apply:

1. For construction water taken through a District Fire Hydrant Meter, and not administered in 1 or 2 above, the contractor will be required to pay the current metered nonresidential peak usage rate per hundred cubic feet of water taken, a \$50.00 permit fee, and \$2,300.00 deposit for the hydrant meter with backflow prevention assembly.
2. Use of District Fire Hydrants is authorized by a permit issued by the District only, as conditioned in Regulation 13, Section D. Illegal use of a Fire Hydrant may be subject to a \$250.00 charge.

**P. Plan Check Fee**

An hourly rate of \$90.00 shall be assessed for review of an Applicant's construction plans as provided in Regulation 7 under Part H.1. The minimum plan check fee shall be \$900.00.

**Q. Supervision and Inspection**

An hourly charge of \$87.00 shall be used to calculate the deposit for supervision and inspection of new or upgraded water facilities to be connected to the District system, as provided in Regulation 7, Section H.6. The minimum fee for Supervision and Inspection shall be \$600.00.

**R. Hydrant Flow Test**

A completed application for hydrant flow test and \$350.00 fee shall be paid in advance to supervise and perform a fire hydrant flow test and to provide written results of the test to the person or entity requesting it.

**S. Abandonment of Service and Reinstallation of Abandoned Service**

The District charge for abandoning an existing water service from the existing water main as provided in Regulation 7, Section K shall be calculated on a time and materials basis, with a minimum charge of \$3,000.00. The estimated charge shall be paid to the District prior to scheduling the abandonment. In addition, if requested by a Landowner, the District will restore an abandoned service connection by charging on a time and materials basis, with a minimum charge of \$3,000.00.

**T. Administration Fee**

This fee will be assessed to those accounts that participate in certain District programs, including without limitation the Large Irrigation Service, Wholesale Water, and Owner/Tenant Billing Agreement. Each fee is based on actual District costs for administering the individual program and is reviewed at least annually.

**U. Locking Device Replacement Fee**

If the District has installed a locking device on a water meter, curb stop or service valve and such a device is damaged or removed, then the following charges shall be imposed on the Landowner:

- Lock \$10.00
- Standard Locking Device \$25.00
- Advanced Locking Device:
  - Viper Lock \$16.00
  - Meter Nut Lock \$20.00
  - McGuard Lock Box \$37.00

If installed locking devices on the same service connection continue to be damaged or removed, the District reserves the right to abandon the service. Charges for service abandonment and any subsequent reinstallation of service will be on time and materials for the abandonment of the service as provided in Section U of this Regulation 3. The charges will be added to the Customer's water bill and must be paid before service is restored.





## **Finance and Audit Committee Agenda Item: 4**

**Date:** March 31, 2017

**Subject:** Customer Billing/Receipts Internal Control Procedures

**Staff Contact:** Daniel A. Bills, Finance Director

**Recommended Committee Action:**

Review and comment on the attached Draft proposed Internal Control Procedures from James Marta & Company, LLP. Direct staff as appropriate.

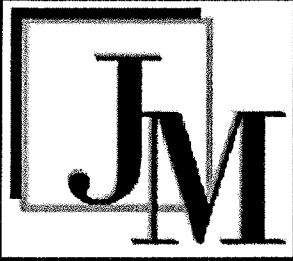
**Discussion**

In 2016, the District’s financial auditors recommended the District look at strengthening its internal controls over customer billing and receipts. These recommendations came as a result of observations made during the audit and not as a result of identified errors or corrections needed to financial data. During 2016, staff began to address these recommendations by instituting certain new practices in its operations. However, a full, formal procedure has not been developed. As some of the recommendations were difficult to develop into a procedure, staff reached out to the CPA firm of James Marta & Company, LLP for assistance in identifying a set of procedures that could be implemented to satisfy the auditor’s recommendations.

Staff is not asking to Committee or the Board to approve of these procedures as that is the purview of the General Manager. Instead, these proposed procedures are presented to address the status of the District in responding to auditor recommendations.

**Strategic Plan Alignment:**

Finance – 4.A,B,E. The Finance and Audit Committee provides input and guidance to District staff to utilize internal controls, planning tools, procedures and cash and investment oversight and administer prudent financial practices in order to meet the District’s needs and maintain reserves within District policies.



JAMES MARTA & COMPANY LLP

Identify and Develop Good Internal Controls and  
Appropriate Segregation of Duties Related to  
Process and Procedures Over the Customer Billing  
and Receipts Functions

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Agreed Upon Procedures



**CONTACT:**

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PREPARED BY  
JAMES MARTA & COMPANY LLP  
CERTIFIED PUBLIC ACCOUNTANTS

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**James Marta & Company LLP**

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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**ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To Management  
Sacramento Suburban Water District

We have performed the procedures enumerated below, which were agreed to by management of Sacramento Suburban Water District, solely to identify and develop internal controls and appropriate segregation of duties related to processes and procedures over the customer billing and receipts functions. Sacramento Suburban Water District management is responsible for the internal controls developed pursuant to this report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures below either for the purpose for which this report has been requested or for any other purpose.

Our engagement for these procedures was limited in scope and was confined to our agreed-upon procedures. This engagement is not an audit or a review.

**Background**

Sacramento Suburban Water District received a letter from their financial auditor identifying deficiencies in its internal control process related to customer billing and receipt functions.

**Objective**

The objective of the engagement is to assist in identifying and developing internal controls and appropriate segregation of duties related to processes and procedures over the customer billing and receipts functions.

Services to be provided:

1. Consulting with various staff regarding the current controls over the customer billing and receipts functions.
2. Review auditor's notes in regards to areas in the customer billing and receipts functions that are considered to be significant deficiencies.
3. Assistance with identification of optional procedures to obtain adequate segregation of duties and controls.
4. Meet with finance staff to discuss alternative procedures identified and discuss additional alternatives, concerns, constraints, and solutions.
5. Issue and present final recommended procedures and controls regarding billing system.

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We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Instead, this engagement is designed to assist the Sacramento Suburban Water District in improvement of certain accounting and finance procedures related to the customer billing process.

This report is intended solely for the information and use of management of Sacramento Suburban Water District, and is not intended to be and should not be used by anyone other than these specified parties.

DRAFT

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
DATE

## REVIEW OF AUDITOR IDENTIFIED DEFICIENCIES

The recommended controls below include mitigating controls and while these are not the most ideal, they create enough oversight while being cost beneficial. These controls should be reviewed periodically to see if they can be improved while remaining cost beneficial. We have included 'Best Practice' areas to some of the issues that cannot currently be met, we then recommend mitigating controls for the area.

### Identified Control Issue #1:

Currently the customer service manager has the ability to process customer payments and post adjustment to customer accounts.

### Best Practice: (Complete separation of duties)

All functions for processing customer payments and adjustments to customer accounts are separated. (i.e. the Customer Service Representatives can process the customer payments but someone separate from the billing process posts adjustments)

### Proposed Controls by Management:

Management has proposed changes to increase controls in this area. See Attachment I.

### Additional Recommended Controls:

1. Limit Administrative Service Manager (ASM) to only performing emergency adjustments that are over the Customer Service Representatives (CSR) limit of \$500. (Additional procedures regarding the review of CSR adjustments can be found in *Identified Control Issue #5*)
2. The 'Credit Memo' should be printed out weekly and have the Assistant General Manager (AGM) review. This review should assure that there is a clear description under 'Reason' and that it is reasonable. If the AGM is unavailable for this review, the responsibility should go to the Finance Director/Assistant Controller.
3. The AGM should then initial the 'Credit Memo' showing his approval.
4. All adjustments performed by the ASM should be completed for the week before this review.
5. Management has dedicated a place to keep the approved and initialed 'Credit Memo' for four years.

### Identified Control Issue #2:

There is currently no review of master file changes made in the billing system.

### Best Practice: (Complete separation of duties)

The ASM and CSR should not have access to make changes to master files. All changes that affect the amount of revenue recorded in the General Ledger should be made by someone separate of the billing process.



Proposed Controls by Management:

Management has proposed changes to increase controls in this area regarding updating billing rates. See Attachment II.

Additional Recommended Controls:

1. Each month a master change report should be produced that shows changes made to the master file. This report should include changes to customer data, meter reads, additions/deletions of customers, and billing rates.
2. Each month this report should be reviewed by someone in the finance department separate of the billing cycle.
3. This review should ensure that there are no unusual changes to master files that would otherwise provide incorrect financial information. (i.e. changes to rates or meter reads without a proper reasoning)
4. The review should also reconcile deleted or cancelled accounts to the cancelation requests during the period to ensure that no accounts were removed without proper authorization from customers or internal approval.
5. After review the report should be initialed by the reviewer and kept in a designated file.

Identified Control Issue #3:

There is currently no review of a billing register to determine reasonableness using analytic procedures prior to the final billing.

Recommended Controls:

1. For each billing cycle, a 'Batch Statistics' report should be run. This report shows the number of accounts in the system that were billed and not billed for that cycle. It also shows the number of customers that were in the batch and those that were billed. Any discrepancies should be addressed as to why a customer in the batch was not billed.
2. It also includes these numbers from the same cycle in the prior month and the prior year. This can be used as an analytical tool to compare the same cycle for different periods to see if there are any large variances that need to be explained.
3. A customer report should be run out of the customer service software and the total number of customers who had activity for the billing cycle and compared to the 'Batch Statistics' report. Any differences should be investigated and resolved.
4. These reports should be reviewed and initialed by the ASM and the Assistant Controller prior to the final billing of the billing cycle to be released.

Identified Control Issue #4:

Only the customer service manager and IT manager have full access to make changes to the billing system.

Recommended Controls:

1. In case either is unable to perform their duties for a period of time, the Assistant Controller should also be given full access to the computer system in case of emergencies.

Identified Control Issue #5:

Policies and procedures over billing adjustments and write-offs should be updated to require finance director approval for amounts over a specified dollar amount and a review should be implemented to ensure those approvals have been obtained and documented.

Best Practice: (Complete separation of duties)

All functions for processing customer payments and adjustments to customer accounts are separated. (i.e. the Customer Service Representatives can process the customer payments but someone separate from the billing process posts adjustments)

Proposed Controls by Management:

Management has proposed changes to increase controls in this area regarding updating billing rates. See Attachment I.

Additional Recommended Controls:

1. A Senior Customer Service Representatives (CSR) should be required to review all adjustments and write offs up to the limit of \$500 before being posted. (The ASR will be required to approve anything over this limit as documented in #1)
2. The approving CSR should document the reason for the adjustment and their initials in the appropriate 'reason' space in the customer account.
3. If possible, set up approval limits in the software requiring a password/approval card of the approver before the adjustment is posted to the customer account.
4. The 'Credit Memo' should be printed out weekly and have the ASR review. This review should ensure that there is a clear description under 'Reason' and that it is reasonable. Once the 'Credit Memo' is reviewed and initialed by the ASR, it should go to the AGM for a second review of the CSRs' adjustments along with the adjustments created by the ASR
5. The AGM should initial the 'Credit Memo' showing his or her approval.
6. All adjustments performed should be completed for the week before this review.
7. If the ASM cannot perform the review, the 'Credit Memo' should go directly to the AGM for review.
8. Management has dedicated a place to keep the approved and initialed 'Credit Memo' for four years.

Identified Control Issue #6:

The Finance Department should be reviewing the delinquency report to ensure timely follow-up is completed.

Controls by Management:

Management has procedures in place regarding delinquent accounts. See Attachment III.

Additional Recommended Controls:

1. There are currently no procedures for review processes over delinquent accounts.
2. A delinquent report should be printed monthly showing an aging of accounts receivable.
3. The ASM should note on the report the status of the follow ups for each delinquent account according to procedures already in place. (i.e. Month 1: Late fee added, Month 2: Late fee added; 15-day notice included, Month 3: 48-hour notice sent; Shut off service)
4. ASM will also review and note those accounts with payment extensions authorized by the CSR.
5. ASM will also review and document the follow up for all properties in lock off status; all properties with current liens; all properties with disputed bills.
6. After this is performed, the ASM should initial the report and give to the Assistant Controller for review.
7. The Assistant Controller should review this report making sure all delinquent accounts have a status appointed to them and are being reviewed and followed up on by the ASM.

Identified Control Issue #7:

Access rights to various functions in the billing system should be reviewed

Controls by Management:

Management has proposed changes to increase controls in this area regarding system access. See Attachment VI.

Additional Recommended Controls:

1. The main concern is that the CSRs have too much access to the customer accounts.
2. The procedures of adding/deleting customer accounts/meters should be performed by someone outside of the billing function.
3. The review of the master change form mentioned in issue #2 should indicate that the addition/deletions of accounts/meters have a viable reason.

Identified Control Issue #8:

Reporting to positions with sufficient technical understanding of the billing/receipts process.

Recommended Controls:

1. If a person in the position of controls mentioned above is not familiar with the processes and would be ineffective as a proper reviewer, someone with better knowledge, who is not a part of the billing functions, should replace that person.
2. If no one outside of billing function would make an effective reviewer as part of the controls mentioned above, proper training should be provided to the person who will ultimately be responsible for the review.

# Attachments

## Attachment I

Sacramento Suburban Water District

### Account Adjustments

Effective Date: July XX, 2017

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#### **Purpose**

The purpose of this procedure is to provide specific guidelines to be followed in the process of adjusting a customer account. An adjustment is defined as any non-payment transaction that affects the customer's account balance, whether as a debit or a credit. The billing policy has been approved by the Board of Directors and can be found in the Sacramento Suburban Water District Regulations Governing Water Service (Regulations 2.I, 3, 5 and 6). It is important that Sacramento Suburban Water District (District) make adjustments to an account in a consistent and fair manner.

#### **Procedure**

In the course of business, the Customer Service Representatives (CSR) and Administrative Service Manager (ASM) make regular adjustments to customer billings due to: meter reading errors, billing corrections, penalty fee reversals, dunning fee reversals, property damage, fees for services performed (backflow testing), courtesy adjustments due to leaks, etc.

As per the SSWD Delegation of General Managers' Procurement and Public Works Contracting Authority (PR-Fin 001) the ASM has the authority to make customer account adjustment up to \$5,000. However, any credit adjustment created by the ASM over \$500 will need to be approved by the AGM.

Any credit adjustment created by a CSR will be posted by the ASM prior to billing. Any credit adjustments created by a CSR over \$500.00 need to be approved and posted by the ASM. Any District project that uses customer's resources (i.e. water, electricity or property) may result in an adjustment to the customer water bill account. This type of adjustment requires written approval of the AGM.

The ASM will print a weekly report of all credit adjustments and provide this to the AGM for approval. Once approved, the ASM will post the adjustments to the customer's account. The report will then be placed into Document Management System under Customer Service – CS Support Documents. The report will be retained for four years.

Customer refunds are processed on a weekly basis and reviewed and approved by the ASM. The ASM will submit, to the Finance Department, the refunds for approval and processing.

## Attachment II

Sacramento Suburban Water District

### Updating Billing Rates

Effective Date: July XX, 2017

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#### **Purpose**

The purpose of this procedure is to provide specific guidelines to be followed in the setting and updating of rates in the billing system. The rates and billing policy has been approved by the Board of Directors and can be found in the Sacramento Suburban Water District Regulations Governing Water Service (Regulations 2.I, 3, 5 and 6).

#### **Procedure**

After approval by the Board of Directors, rates will be updated in the billing system before the first billing occurs for the new rate. The Finance Director (FD) will be given access to update rates from the IT Manager (ITM) before the rates go into effect. Once the rates have been updated, the Administrative Service Manager and the Assistant Controller will review the accuracy of the rates. After verification the ITM will remove access to rate setting from the FD.

Periodically, a report will be generated from the billing system, showing any instance where rates have been updated. The report will include the log-in name of the person who changed rates.

## **Attachment III**

Sacramento Suburban Water District

### **Delinquency Procedure**

Effective Date: June 10, 2007  
Amended Date: January 5, 2015

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#### **Purpose**

The purpose of this procedure is to provide specific guidelines to be followed in the collection and discontinuation of water service for accounts that are in arrears. The billing policy has been approved by the Board of Directors and can be found in the Sacramento Suburban Water District Regulations Governing Water Service (Regulations 2.I, 3, 5 and 6). The basic premise of this procedure is to be firm, but fair. It is important that Sacramento Suburban Water District (District) office and field personnel coordinate all collection activities on or near the date and time scheduled for customer notification and collection actions in order to maintain credibility with District customers, conformity with state law and consistency with District regulations.

#### **Procedure**

##### **Water Billing/Collections Procedures**

Water bills are due and payable 19 days from the date mailed. If payment is not received by the time the next billing is generated, a 10 percent late fee will be added to the delinquent water bill. Customers will be allowed a waiver of the late fee, one-time only, as outlined below under the section entitled Late Fees. When the account becomes two billings in arrears a 15-day notice of impending termination will be included with the third water bill prior to a collection notice left at the property (See Sample Billing Cycle on Page 2).

If the bill remains unpaid 15 days after the third bill is mailed a 2-Day Notice of Intent to Terminate Water Service (2-Day Notice) is generated. This 2-Day Notice will be delivered via a courier service contracted with by the District. The courier service will provide a tracking report to the District showing when the notice was delivered. At the time of the 2-day notice generation, a collection charge will be added to the water bill per Regulation No. 3, Section B. In the event of a multi-family property (duplex, triplex or fourplex) a 2-Day Notice will be placed at each unit (See section entitled Termination of Multi-Family Properties for larger unit properties).

If the bill remains unpaid or payment arrangements have not been made service orders will be generated to be used by field service personnel to lock-off the water service to the delinquent account. Lock-off will occur at the curb stop or meter or, if unavailable, the house valve utilizing a locking device. When water service has been terminated, a Termination Notice will be left at the property. At that time an additional turn-off/on charge will be added to the bill per Regulation No. 3, Section B.

### Attachment III

Once water service is disconnected, water will not be restored until full payment is received including all charges and fees assessed by the District. Payment must be made by cash, money order, or a credit/debit card with the Visa or MasterCard logo.

At the time of lock-off, service personnel will note where the water was locked off on the premises in the Cityworks service request. The note will automatically include the employee name, time and date.

#### Sample Billing Cycle

<b>Sample Billing Cycle</b>			
<b>December</b>	<b>January</b>	<b>February</b>	<b>March</b>
	<b><u>January 19</u></b> January bills due	<b><u>February 19</u></b> February bills due	<b><u>March 19</u></b> March bills due
			<b><u>March 24</u></b> 48-hour notice Jan/Feb/Mar bill
			<b><u>March 28</u></b> Shut off Jan/Feb/Mar bill
<b><u>December 27</u></b> January bills mailed Due 19 days from date mailed	<b><u>January 27</u></b> February bills mailed Due 19 days from date mailed	<b><u>February 25</u></b> March bills mailed Due 19 days from date mailed	<b><u>March 29</u></b> April bills mailed Due 19 days from date mailed
	<b>Late Fee Added</b>	<b>Late Fee Added</b> <b>15-day Notice included</b>	
	<b>Month 1</b>	<b>Month 2</b>	<b>Month 3</b>

#### Late Fees

If a District bill for water service is not paid in full by the time the District processes the next month's water bills, which in no case will be earlier than 19 days after the bill was mailed or otherwise presented to the customer, then a late fee in the amount of 10 percent of the unpaid portion of the bill will be assessed on the account and will appear on the customer's next water bill.

In cases where a late fee is imposed on a water bill, the District will have the discretion to waive the late fee in circumstances where:

- (a) The customer has filed a dispute of the water bill in accordance with the time limits and procedures provided in Regulation No. 5, Section H;
- (b) The customer qualifies for an exemption from water service termination under Regulation No. 6, Section B.5.; or
- (c) The customer, upon receiving the next month's bill showing the previous month's water bill as delinquent, contacts the District by no later than 19 days after receipt of the next month's bill to offer a reasonable and substantial explanation for non-payment of the previous month's bill, requests a waiver of the late fee, and is willing to immediately pay the full amount of the



### **Attachment III**

delinquency (less the assessed late fee) by telephone or in person. In determining whether to grant or deny a customer's request to waive a late fee, the District may request additional information from the customer documenting the explanation for nonpayment and may consider the customer's payment history and waiver request history in its assessment of the request.

#### **Termination of Multi-Unit Properties**

Before terminating water service to multi-unit residential structures where the owner, manager or operator is listed as the customer of record, the District must "make a reasonable good faith effort" to inform the actual users of the water service (i.e., the building residents) that the account is delinquent and that service will be terminated in 10 days ("10-Day Notice"). The 10-Day Notice to residents informs them that they have the right to become customers of the District without being required to pay the amount due on the delinquent account. (Government Code section 60371, subd. (a).)

The District is not required to provide water service to individual residents of a multi-unit building, unless each resident agrees to the terms and conditions of service and complies with all applicable District rules and regulations for receiving service. Each resident is required to sign the District's Application for Water Service. Alternatively, if one or more residents of a multi-unit building are willing and able to assume responsibility for the entire building account, then the District will make service available to all residents. In addition, if the District is physically capable of selectively terminating service (for example, the building may have multiple meters), then the District must make service available to residents who have chosen to become District customers and who have complied with applicable District rules and regulations. (Government Code section 60371, subd. (b).)

When the 10 day period has expired the District must make a "reasonable good faith effort" to notify an adult resident of each unit in a multi-unit building by telephone or in person at least 48 hours before any termination of service ("2-Day Notice"). If telephone or personal contact is unsuccessful, then the 48-hour notice can be provided by mail or by posting the 2-Day Notice in a conspicuous location at the premises. (Government Code section 60373 subd. (b).)

To comply with the 2-Day Notice requirement, staff will:

- (a) Prepare a written notice informing residents of the delinquency and that water service will be terminated in 48 hours;
- (b) Have a staff person go to each unit of the subject premises and knock on the door;
- (c) If an adult answers, deliver the notice, request the recipient's name for the District's records; and
- (d) If an adult does not answer, post or hang the 2-Day Notice on the door. District staff will make and keep a record of each customer and address, how the 2-Day Notice was delivered (in person or posting), the date and time of delivery, and the name of the adult receiving the 2-Day Notice if applicable and the employee number of the employee delivering the 2-Day Notice. It is important that the District keep records to show when and how all notices were served. Records will be retained in OnBase and attached to the Cityworks service request.

## **Attachment III**

### **Prohibitions on Termination**

The District will not terminate water service because of a delinquent account on any Friday, Saturday, Sunday, legal holiday, or at any time during which the business offices of the District are not open to the public. (Government Code section 60374). Furthermore, the District will not terminate residential service for nonpayment in any of the following situations:

- (a) When an investigation by the District of a customer dispute or complaint is pending;
- (b) When a customer has been granted an extension to pay the bill (See Water Bill Arrangements below); or
- (c) When a licensed physician or surgeon has certified that terminating the service will be life threatening to the customer and the customer is financially unable to pay, but is willing to enter into an acceptable payment plan, (Gov. Code section 60372). (Note: this certification will be kept on file for one year and will be required to be renewed annually.)

### **Water Bill Payment Arrangements**

The Customer Service Department will make every effort to work with a customer in order to resolve billing problems in accordance with these procedures. Customer Service Representatives (CSRs) are authorized to allow payment extensions up to two weeks from the original billing or 2-Day Notice due date. CSRs will review the customer's billing history to determine if payment extensions are possible. Customers with a history of continual delinquency or returned payments will not be granted a payment extension unless approved by the District's Administrative Services Manager or other Managerial staff as determined by the General Manager. A customer requesting an extension longer than two weeks from the original billing or 2-Day Notice due date will require the approval of a Managerial staff member as determined by the General Manager.

### **Properties in Lock-Off Status**

To assure that the property remains in a lock-off status, District personnel will monitor all locked off accounts (disconnect check) on a monthly basis.

If it has been determined that water service has been illegally restored, customers will be back-billed to the date water was initially shut off or from the last confirmed disconnect check. Customers who damage District property will be charged time and material for any needed repairs in addition to late fees and other charges. Field Services personnel will provide the Customer Service Department with the appropriate charges to be added to the customer's water bill account. Before water service can be restored, full payment of all charges need to be received. Usage of District water while in a lock-off status will be considered theft. If theft of water continues, the District will take whatever action is necessary to remedy the situation, including legal action.

### **Liens**

The District may lien real property against outstanding debt, recognizing that if a foreclosure occurs the District's lien may be extinguished. Therefore, the District does not typically file liens for outstanding debt.

### **Attachment III**

Regulation No. 5 states “Under California law, the responsibility for paying District fees and charges results from possession of the property on which water is used, rather than from any personal obligation.” If a former customer has a balance owing, this amount will be included in any demand notices issued. The demand notice will include the title company information, escrow number, parcel number, amount due, and the date amount is good through. In addition, if the water has been terminated and the prior balance has not been satisfied through escrow, the new owner may be required to pay the outstanding water bill.

If a lien has been placed on a property, the lien will remain on the property until the lien amount has been satisfied. A release of lien will be mailed upon request and will be the owner’s responsibility to file with the County of Sacramento.

#### **Returned Checks/Electronic Payment Items**

A returned check/electronic payment item will be treated the same as non-payment of water service. At the time of notification by the District’s banking institution, the return item is posted to the customer’s account immediately, along with a return payment charge. Customer Service will generate a letter notifying the customer of the returned item, and the related charges and fees. The amount of the return payment check charge is outlined in Regulation No. 3.H. If payment is not received within 14 days of the notification letter, then the procedures for delinquent accounts will be followed as outlined under the section entitled “Water Billing/Collection Procedures”. Acceptable methods for payment for a returned item are: cash, money order, or a debit/credit card with the Visa or MasterCard logo.

A customer who paid their delinquent water bill with a check or electronic payment during the collection process, and the payment was returned for any reason (i.e. insufficient funds, closed account, stop payment), will not have additional time to pay the returned payment item. Field Services personnel will go to the property and serve a 2-Day Notice of delinquent water bill at the property immediately upon notification. The customer will be billed for all fees associated with the collection process including the returned payment charge.

Customers that pay their bills utilizing the direct payment service (DPS) will have their DPS terminated if they have insufficient funds for 2 consecutive months. In some cases, those customers may not be able to re-establish DPS service for at least 120 days during which a record of good payment history must have been re-established.

#### **Disputed Bill Procedures**

Per Regulation No. 5, should a Customer dispute a bill, a written explanation must be received before the next regular billing period. All disputed bills must be paid before the due date to avoid discontinuance of water service. District staff will review the account in question and contact the owner of the property to resolve the issue. If staff rules in favor of the Customer, the Customer’s account will be credited for the disputed item. If the Customer is dissatisfied with the District staff resolution, the Customer may appeal to the District’s General Manager. If dissatisfied with the District General Manager’s decision, then an appeal may be made to the District Board of Directors. All decisions made by the District Board of Directors are final.

### **Attachment III**

#### **Procedure Review**

This procedure will be reviewed as needed or when related changes in the Regulations necessitate a change.

Approved by:

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General Manager

## Attachment IV

Sacramento Suburban Water District

### Billing System Access Control

Effective Date: July XX, 2017

#### **Purpose**

The purpose of this procedure is to provide specific guidelines in establishing user access for the utility billing system. It is important to provide appropriate access to each user while still maintaining the integrity of the billing system.

#### **Procedure**

The following will provide an outline for the access control group created in the billing system:

Group Name	Staff	Access
Admin	Administrative Services Manager IT Manager (ITM) Support	Full Access, no restrictions
Create Service Order	All Field Staff All Engineering Staff Asst to the GM	View Only Access with the ability to create logs and service orders
CSR	CSR Administrative Assistant Engineering Project Coordinator Operations Coordinator	Account Changes Account Adjustments Billing Cashiering Import/post Payments Meter Add/Remove Meter Read Review
Finance	Administrative Assistant All Finance Staff Operations Coordinator	Post Payments
Meter Inventory Import	Operations Coordinator	Import meters into inventory
Reading Configuration	Engineering Project Coordinator Operations Coordinator	Import meter reads into the billing system
View Only	Management Staff	View Only Access

Contractors shall be placed into an access group based on the needs of the job. The contractor shall only be able to access the billing system upon request. When their project is completed they will notify the ITM who will then remove their access to the system.

