



SOUTH SAN JOAQUIN  
IRRIGATION DISTRICT

# Annual Financial Report 2015

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South San Joaquin Irrigation District  
Annual Financial Report

December 31, 2015 and 2014

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# Auditor's Report

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
South San Joaquin Irrigation District  
Manteca, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South San Joaquin Irrigation District (the District) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

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

To the Board of Directors  
South San Joaquin Irrigation District

**Emphasis-of-Matter**

As discussed in Note 18 to the basic financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended December 31, 2015. Due to the implementation of these Statements, the District recognized deferred outflows of resources and a pension liability for its cost-sharing pension plan as of January 1, 2014. Our opinion is not modified with respect to this matter.

**Report on Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of contributions to the pension plan and the schedule of funding progress for the other postemployment benefits plan, as listed in the accompanying table of contents, 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.

*Richardson & Company, LLP*

August 17, 2016



# Management's Discussion and Analysis

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# Management's Discussion and Analysis

## Introduction

In this discussion and analysis, management provides an overview of the South San Joaquin Irrigation District's ("the district" or "SSJID") financial position at December 31, 2015 and 2014 and its financial performance for the years then ended. Condensed financial information from 2013 is also presented for comparison only. Limited information is presented about conditions and events that may affect the district's future financial position and performance. The intent is to provide context for understanding the financial statements and the district's prospects, and assistance interpreting the financial statements. This discussion and analysis presents management's perspective and should be read in conjunction with the district's financial statements and accompanying notes which follow this discussion and analysis.

## Financial Statements

The district's financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements, together with the related footnotes, are known as the "basic financial statements" and comply with generally accepted accounting principles, which for all state and local governments including the district, are set forth in Governmental Accounting Standards Board (GASB) Statements. In many, but not all cases, GASB Statements incorporate the provisions of Financial Accounting Standards Board Statements which establish generally accepted accounting principles for nongovernmental entities. The district's activities are business type activities and are accounted for as an enterprise fund. The accounting principles for an enterprise fund more closely resemble those of a commercial entity than a government.

## Balance Sheet

The balance sheet provides information about assets, deferred outflows of resources, obligations (liabilities), deferred inflows of resources, and net position of the district at a specific point in time. All amounts (except for investments in marketable debt securities) are shown at cost. Therefore, the liabilities, deferred inflows of resources, and net position sections of this statement reveal the sources of the district's capital, and the assets and deferred outflows of resources section shows how the capital has been used. The net position section reveals the life-to-date results of operations. Current assets and current liabilities are shown separately from other assets and liabilities to enable the reader to evaluate the adequacy of the district's working capital. Working capital is the excess of current assets over current liabilities, and current assets and current liabilities are those unrestricted amounts which liquidate within one year.

## Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position provides information regarding the district's financial performance during the year. The difference between revenues and expenses is the change in net position for the period. The total net position in the balance sheet represents the life-to-date accumulation of changes in net position.

# Management's Discussion and Analysis

Revenues earned and expenses incurred during the year are presented in two categories: operating and nonoperating. This allows the reader to evaluate the financial results of operating activities separately from other sources of income and expense.

Earnings of the Tri-Dam entities are shown as nonoperating revenues because the district delegates operation of those activities to the joint venture organization (Tri-Dam Project) and the Tri-Dam Power Authority. The statement ends by showing how net income for the year, including capital contributions, accounts for the change in net position that occurred during the year.

## Statement of Cash Flows

Because revenues and expenses are not identical to cash flows, generally accepted accounting principles require the statement of cash flows. The statement of cash flows reports sources and uses of cash in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities. The statement also presents a reconciliation of the differences between net income from operations and net cash flows from operations.

## Financial Highlights

Highlights from the financial statements are discussed below.

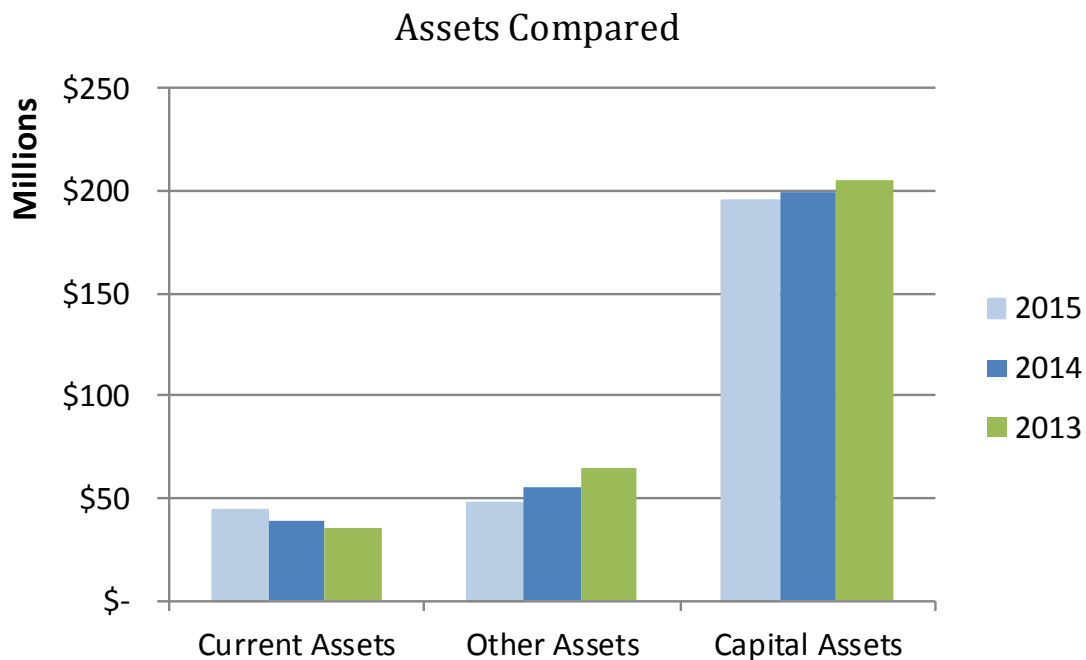
## Balance Sheet Discussion

### Condensed Balance Sheets As of December 31

	<b>2015</b>	Restated <b>2014</b>	Restated <b>2013</b>
Current assets	\$ 44,352,264	\$ 39,311,451	\$ 35,675,512
Other assets and investments	48,386,021	55,526,709	65,152,292
Capital assets	195,482,572	199,974,161	205,478,640
<b>Total assets</b>	<b>288,220,857</b>	<b>294,812,321</b>	<b>306,306,444</b>
Deferred outflows of resources	3,040,448	1,545,803	1,338,897
<b>Total assets and deferred outflows</b>	<b>\$ 291,261,305</b>	<b>\$ 296,358,124</b>	<b>\$ 307,645,341</b>
Current liabilities	\$ 3,322,688	\$ 3,654,137	\$ 5,864,015
Long-term liabilities	17,350,330	18,380,827	22,955,274
<b>Total Liabilities</b>	<b>20,673,018</b>	<b>22,034,964</b>	<b>28,819,289</b>
Deferred inflows of resources	781,809	2,067,825	
Net investment in capital assets	187,832,223	189,915,775	192,762,414
Restricted net position	7,490,014	6,623,733	5,641,990
Unrestricted position	74,484,241	75,715,827	80,421,648
<b>Total net position</b>	<b>269,806,478</b>	<b>272,255,335</b>	<b>278,826,052</b>
<b>Total liabilities, deferred inflows, and net position</b>	<b>\$ 291,261,305</b>	<b>\$ 296,358,124</b>	<b>\$ 307,645,341</b>

## Management's Discussion and Analysis

As explained in Note 19, the financial statements as of, and for the year ended, December 31, 2014 have been restated to give effect to Governmental Accounting Standards Board Statement No. 68, a new accounting standard for reporting pension expense, net pension liability, deferred outflows of resources, and deferred inflows of resources. The effective date of the new standard for employers' financial statements is the first fiscal year beginning after June 15, 2014. The 2014 and 2013 financial statements have been restated in order to accommodate correct calculation of pension expense during 2015 and 2014, and to make the 2015 and 2014 financial statements comparable. CalPERS did not re-compute the pension liability in the June 30, 2012 pension plan valuation using methods and assumptions that comply with GASB Statement No. 68. Therefore, the balances as of and for the year ended December 31, 2013 are not reported in accordance with generally accepted accounting principles. The restatement as of January 1, 2013 represents the contributions made from July 1, 2012 to December 31, 2012, less the pension liability computed in the June 30, 2012 valuation using methods and assumptions that do not comply with GASB Statement No. 68.

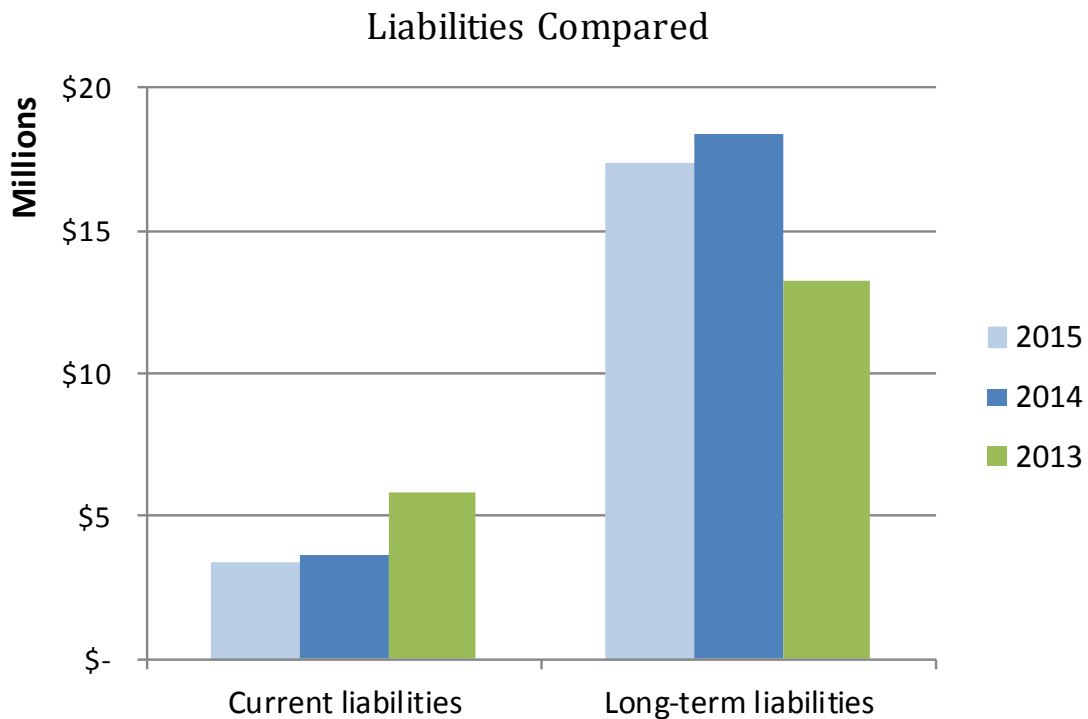


- Current assets increased \$5 million in 2015. Most of the increase was caused by a reduction in the remaining term of investment securities. There was also an increase in cash due to the redemptions of securities at their maturity dates. Another significant factor was an increase in the amounts receivable treated water sales and irrigation charges.
- Current assets increased \$3.6 million in 2014. The change was caused by maturities of noncurrent investments, which resulted in an increase in cash and cash equivalents which were not yet reinvested at year end.

## Management's Discussion and Analysis

- Other assets decreased by \$7.1 million in 2015 due to reductions in the remaining terms of investment securities which consequently shifted into the current assets classification. The net position of the Tri-Dam project fell by \$4 million during 2015 which reduced SSJID's investment in Tri-Dam Project by \$2 million.
- Other assets decreased by \$9.6 million in 2014 due to maturities of noncurrent investments.
- In 2015 capital assets decreased by \$4.5 million because depreciation expense exceeded capital asset additions of \$2.3 million.
- In 2014 capital assets decreased \$5.5 million due to depreciation, which exceeded \$1.3 million of capital asset additions.
- The deferred outflow on refunding of long-term debt decreased \$128,000 in 2015 and \$148,000 in 2014 due to scheduled amortization over the remaining term of the 2012A bonds. The deferred outflow arose in 2012 when the 2008A certificates of participation were refunded by the issuance of the 2012A bond series. The amount paid into escrow by the district to defease the 2008A certificates of participation exceeded the book value of the 2008A debt and this excess is the original amount of the deferred outflow. The 2008A debt was defeased more than a year in advance of the next available call date so the defeasing escrow had to be sufficient to cover some interest payments as well as the principal amount of the outstanding 2008A certificates of participation. Mostly for this reason, the payment to escrow was more than the book value of the 2008A debt.
- The deferred outflow of resources for pension plans increased \$206,000 in 2015 because of changes in certain components of the net pension liability as prescribed by GASB 68.
- In 2014, deferred outflow of resources related to the district's pension plans appears on the balance sheet for the first time as a consequence of implementing the new GASB 68 standard for net pension liability and expense.

# Management's Discussion and Analysis



- Current liabilities decreased by \$330,000 in 2015 partly because the conservation program liability was fully liquidated and because accounts payable declined.
- Current liabilities dropped by \$2.2 million during 2014 because of the partial defeasance of the 2012A Bonds and the discontinuation of the on-farm water conservation program. The 2015 maturities of the 2012A Bonds were defeased in 2014 so the current portion of the 2012A Bonds is zero at December 31, 2014. After the on-farm conservation program was discontinued in early 2014 no further liability was incurred to reimburse irrigators for their conservation projects, while reimbursements continued to reduce the existing liability.
- In 2014, long term liabilities decreased by \$4.6 million due to the \$1.9 million decrease in the net pension liability and \$2.5 million principal reduction and premium amortization on the portion of 2012A bonds reported as long-term. Principal reduction on the 2012A Bonds was the primary cause for a \$2.6 million decline in long-term liabilities during 2014.
- In 2015, the deferred inflow of resources for pension plans decreased by \$1.3 million in 2015 because of changes in certain components of the net pension liability as prescribed by GASB 68.
- In 2014 deferred inflows of resources related to the district's pension plans appears on the balance sheet for the first time as a consequence of implementing the new GASB 68 standard for net pension liability and expense.

## Management's Discussion and Analysis

- The components of changes in net position for each year are detailed in the statement of revenues, expenses, and changes in net position.
- Restricted net position consists of restricted assets less associated liabilities of which there are none. Restricted net position is equal to total restricted assets in the table below.

Restricted Assets	2015	2014	2013
Debt service reserve fund	\$ 1,798,524	\$ 1,801,025	\$ 1,803,005
Construction and capital replacement funds - water treatment	5,652,987	4,815,404	3,822,157
Accrued interest receivable on restricted investments	38,503	7,304	16,828
Total restricted assets	<u>\$ 7,490,014</u>	<u>\$ 6,623,733</u>	<u>\$ 5,641,990</u>

### Revenues and Expenses Discussion

#### Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Years Ended December 31

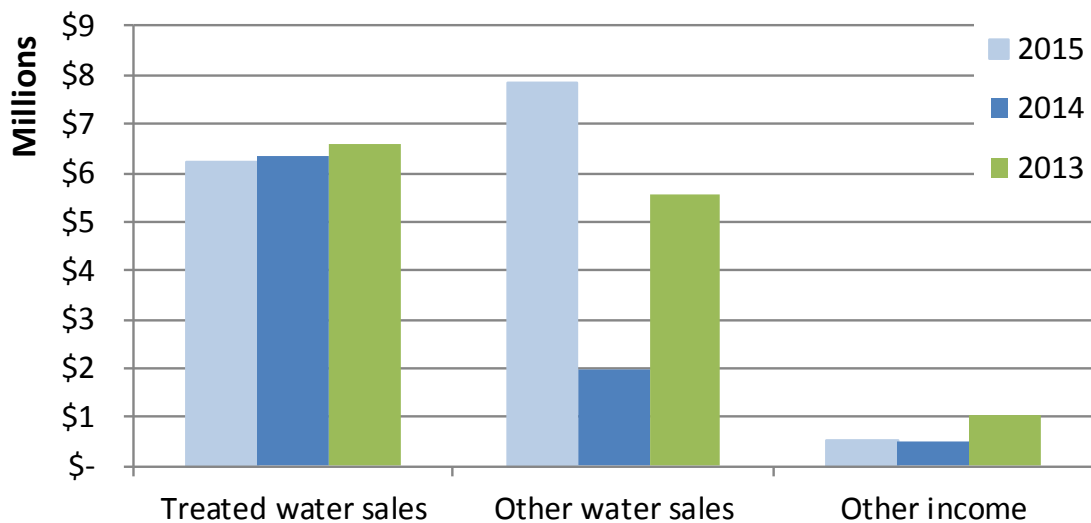
	2015	Restated 2014	Restated 2013
Treated water sales	\$ 6,234,979	\$ 6,352,507	\$ 6,572,247
Other water sales	7,835,345	1,960,041	5,566,091
Other income	502,374	478,625	1,016,160
<b>Total Operating Revenues</b>	<u>14,572,698</u>	<u>8,791,173</u>	<u>13,154,498</u>
Labor	10,927,577	11,740,090	9,980,429
Other operating and maintenance	3,422,295	3,371,524	4,974,155
General and administrative	4,247,941	3,645,789	3,083,231
Depreciation	6,816,446	6,813,750	6,786,478
<b>Total Operating Expenses</b>	<u>25,414,259</u>	<u>25,571,153</u>	<u>24,824,293</u>
<b>Net Loss from Operations</b>	<u>(10,841,561)</u>	<u>(16,779,980)</u>	<u>(11,669,795)</u>
Net Nonoperating Revenues	7,231,955	8,972,215	11,103,925
<b>Net Loss before Contributions</b>	<u>(3,609,606)</u>	<u>(7,807,765)</u>	<u>(565,870)</u>
Capital contributions	1,160,749	1,237,048	1,258,404
<b>Change in Net Position</b>	<u>(2,448,857)</u>	<u>(6,570,717)</u>	<u>692,534</u>
Net Position, Beginning of Year as Previously Reported	272,255,335	278,826,052	289,746,825
Restatement			(11,613,307)
Net Position, Beginning of Year Restated	<u>272,255,335</u>	<u>278,826,052</u>	<u>278,133,518</u>
<b>Net Position, End of Year</b>	<u>\$ 269,806,478</u>	<u>\$ 272,255,335</u>	<u>\$ 278,826,052</u>



## Management’s Discussion and Analysis

As explained above and in Note 19, the financial statements as of, and for the year ended, December 31, 2014 have been restated to give effect to Governmental Accounting Standards Board Statement No. 68, a new accounting standard for reporting pension expense, net pension liability, deferred outflows of resources, and deferred inflows of resources. The effective date of the new standard for employers’ financial statements is the first fiscal year beginning after June 15, 2014. The 2014 and 2013 financial statements have been restated in order to accommodate correct calculation of pension expense during 2015 and 2014, and to make the 2015 and 2014 financial statements comparable. CalPERS did not re-compute the pension liability in the June 30, 2012 pension plan valuation using methods and assumptions that comply with GASB Statement No. 68. Therefore, the balances as of and for the year ended December 31, 2013 are not reported in accordance with generally accepted accounting principles. The restatement as of January 1, 2013 represents the contributions made from July 1, 2012 to December 31, 2012, less the pension liability computed in the June 30, 2012 valuation using methods and assumptions that do not comply with GASB Statement No. 68.

### Operating Revenues Compared

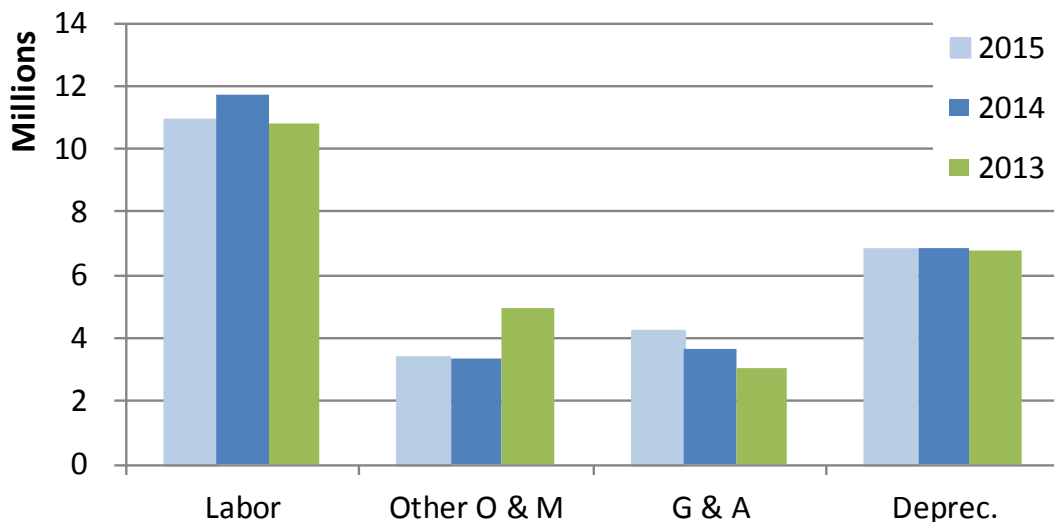


- In 2015 treated water sales to the cities of Manteca, Lathrop, and Tracy fell by \$118,000 (1.9%) in response to continuing drought.
- In 2014 treated water sales to the cities of Manteca, Lathrop, and Tracy fell by \$220,000 (3.3%) in response to the 4<sup>th</sup> year of drought.
- Other water sales jumped in 2015 by \$5.9 million mostly because SSJID was compensated \$5,750,000 by the California Department of Water Resources and the San Luis & Delta-Mendota Water Authority for a release of 11,500 acre-feet of water from New Melones Reservoir. The intended purpose of the reservoir release was to aid fish migrations.

## Management’s Discussion and Analysis

- The amount of other water sales shows a drop of \$3.6 million in 2014 because of a \$4 million decrease in water transfers to out-of-district buyers which was partly offset by a \$400,000 increase in irrigation revenues. The increase in irrigation revenues was caused by a rate increase of \$3 per acre-foot that took effect in 2014.
- Other income was stable in 2015 after falling by about \$500,000 in 2014 as the California Solar Initiative expired midway through 2013. The California Solar Initiative provided annual incentive payments to the district for the first five years of production by the district’s Robert O. Schulz Solar Farm.

### Operating Expenses Compared



- 2015 showed a reduction of 6% in labor costs due to the increase in the amount of the net pension liability which was largely driven by lower than expected investment yields for the CalPERS pension trust. This was more than offset by amounts deferred under the GASB 68 accounting standard. Wages grew 2.9%.
- Labor expenses increased 17.6% in 2014 because of a \$1.2 million increase to pension expense resulting from adjustments made under GASB 68 to reflect a decline in the net pension liability. Another cause was that compensated absences expense rose to a normal level after falling sharply in 2013 because of the change in the estimate for the compensated absences liability as mentioned in Note 2.
- In 2015 other operating and maintenance expense was almost unchanged. In 2014 other operating and maintenance expense decreased \$1.6 million or 32%. About half of this was due to discontinuing the on-farm water conservation program early in the year. The other significant component of the decrease is the absence of the unusual write-off that occurred in 2013 as described below.

## Management's Discussion and Analysis

- General and administrative expense increased \$602,000 in 2015 as SSJID began the legal process to acquire electric distribution assets from PG&E after obtaining regulatory approval for the district's electric utility project in 2014.
- General and administrative expense increased \$563,000 in 2014 due to legal and consulting costs for the district's application to the San Joaquin County Local Agency Formation Commission for permission to provide retail electric distribution services.
- In 2015, net nonoperating revenues fell more than \$1.7 million because SSJID's share of Tri-Dam Project earnings fell when Tri-Dam's pension expense was increased by a jump in the net pension liability which, in turn, was driven by lower than expected investment yields for the CalPERS trust. This was partly offset by a \$670,000 increase in property tax revenue.
- In 2014 net nonoperating revenues fell by almost \$2.2 million (19%) as the earnings of the Tri-Dam entities continued to decline because the continuing drought further reduced the Stanislaus River flows available for hydroelectric production. Partly offsetting the Tri-Dam decline was a \$900,000 increase in other nonoperating revenues consisting mostly of irrigation entitlement fee income described in Note 13.
- Capital contributions remained almost unchanged in 2015 and 2014.
- Change in net position increased by \$4.1 million in 2015 but decreased by nearly \$5.9 million in 2014.

### Capital Assets and Debt Discussion

#### Summary of Capital Assets For the Years Ended December 31

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 7,730,310	\$ 7,730,310	\$ 7,730,310
Construction in progress	1,366,956	660,822	122,483
Water treatment plant & transmission line	126,862,781	126,625,792	126,439,629
Other buildings	1,559,475	1,559,475	1,559,475
Solar generating plant	11,974,734	11,974,734	11,974,734
Irrigation system	106,384,826	105,714,517	105,348,804
Vehicles and equipment	14,920,076	14,293,532	14,195,596
Total	270,799,158	268,559,182	267,371,031
Less: accumulated depreciation	(75,316,586)	(68,585,021)	(61,892,391)
Net capital assets	<u>\$ 195,482,572</u>	<u>\$ 199,974,161</u>	<u>\$ 205,478,640</u>

- Total capital assets increased \$2.2 million in 2015 and \$1.2 million in 2014.

# Management’s Discussion and Analysis

- The 2015 and 2014 increases were attributable to a variety of typical replacements and improvements to the irrigation distribution system and was less than usual because the district has temporarily slowed the pace of improvements and replacements while conducting a feasibility study of a possible project to pressurize more of the irrigation system. If the district embarks on this pressurization project it would render unnecessary many scheduled improvement and replacement projects. The 2015 increase also included over \$600,000 for vehicles and equipment.
- See Note 6 for additional information about capital assets.

## Summary of Long Term Debt For the Years Ended December 31

	<u>2015</u>	<u>2014</u>	<u>2013</u>
2012A bonds incl. original issue premium	\$ 7,887,413	\$ 10,423,485	\$ 15,032,095

- During 2015 long-term debt decreased \$2.5 million as SSJID amortized original issue premium and defeased the 2016 bond maturities in December, 2015.
- During 2014 long-term debt decreased \$4.6 million as the district defeased the \$2,180,000 amount of 2015 maturities of the 2012A Bonds. In addition, the \$2,110,000 amount of 2014 maturities was redeemed and \$320,000 of original issue premium was amortized.
- Debt service coverage ratios were 176% for 2014 and 2,577% for 2015. The ratio in 2014 was lower than recent years as a result of the drought’s impact on hydroelectric generation at the Tri-Dam Project and the Tri-Dam Authority. The ratio for 2015 was much higher than usual because of the 2014 defeasance of the 2015 bond maturities and the increase in other water sales revenues.
- See Note 8 for additional information about long-term debt.

### Expectations for 2016

As of the date of this report, distributions to SSJID from the Tri-Dam organizations are recovering due to above average precipitation in the Stanislaus River drainage. For 2016, Tri-Dam Project distributions to SSJID are expected to total about \$8,000,000. The district was also compensated by the California Department of Water Resources and the San Luis & Delta-Mendota Water Authority in the amount of \$9,750,000 for water released from New Melones Reservoir by the United States Bureau of Reclamation during April and May, 2016, with the intent of benefitting fish migration.

## Management's Discussion and Analysis

In response to the continuing drought, the district limited irrigation water deliveries to 36 inches for 2015. For the 2016 irrigation season, the limit has been increased to 40 inches. Despite the higher water allotment, consumption of irrigation water is trending slightly lower in 2016 than in 2015 which will produce a small additional reduction to irrigation revenues. The curtailment of treated water deliveries was relaxed from 2015's cutback of 20% of 2013 levels to 16% of 2013 levels for 2016 which is expected to produce a small increase in treated water revenues.

In 2009 the district filed an application with the San Joaquin County Local Agency Formation Commission ("LAFCo") for permission to provide retail electric distribution service within the district. LAFCo approved the application in December, 2014. PG&E has filed a lawsuit to modify or overturn the LAFCo decision. The district has been participating in the defense of the LAFCo decision. This case has been decided largely in favor of SSJID, but a couple issues are not decided yet. SSJID is pursuing the purchase of the PG&E utility assets within the district. The length and ultimate cost of these processes are not known.

### Requests for Information

This discussion is intended to provide management's perspective on the district's financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager, PO Box 747, Ripon, CA 95366.

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# Basic Financial Statements

# South San Joaquin Irrigation District

## Balance Sheets

December 31, 2015 and 2014

	<b>2015</b>	<b>Restated 2014</b>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & cash equivalents - unrestricted	\$ 10,960,208	\$ 8,608,929
Investments in marketable securities	27,985,021	26,673,056
Accounts receivable	4,293,504	3,261,900
Accrued interest receivable - unrestricted	177,140	233,931
Prepaid expenses	880,425	383,056
Inventories	55,966	150,579
<b>Total Current Assets</b>	<b>44,352,264</b>	<b>39,311,451</b>
<b>Other Assets and Investments</b>		
Cash & cash equivalents - restricted	4,241,955	5,318,508
Accrued interest receivable - restricted	38,503	7,304
Investments in securities - unrestricted (net of current amounts)	2,506,353	8,300,024
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	3,209,556	1,297,921
Notes and loans receivable (including accrued interest)	315,215	518,352
Investment in Tri-Dam Project	38,074,439	40,084,600
<b>Total Other Assets and Investments</b>	<b>48,386,021</b>	<b>55,526,709</b>
<b>Capital Assets</b>		
Non-depreciable	9,097,266	8,391,132
Depreciable	261,701,892	260,168,050
Less accumulated depreciation	(75,316,586)	(68,585,021)
<b>Total Capital Assets</b>	<b>195,482,572</b>	<b>199,974,161</b>
<b>TOTAL ASSETS</b>	<b>288,220,857</b>	<b>294,812,321</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding of long term debt	237,064	365,100
Pension	2,803,384	1,180,703
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,040,448</b>	<b>1,545,803</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 291,261,305</b>	<b>\$ 296,358,124</b>

*The accompanying notes to the financial statements are an integral part of this statement.*



# South San Joaquin Irrigation District

## Balance Sheets

December 31, 2015 and 2014

	<b>2015</b>	<b>Restated 2014</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 382,095	\$ 622,428
Construction contract retentions payable	49,806	5,100
Conservation program liability		218,076
Accrued expenses	348,814	360,321
Unearned revenue	1,321,467	1,312,679
Current portion of long-term debt	222,037	276,073
Compensated absences	998,469	859,460
<b>Total Current Liabilities</b>	<b>3,322,688</b>	<b>3,654,137</b>
<b>Long-Term Liabilities</b>		
Long-term debt	7,665,376	10,147,413
Net obligation for other post-employment benefits	60,568	68,401
Compensated absences	302,133	400,103
Net pension liability	9,322,253	7,764,910
<b>Total Long-Term Liabilities</b>	<b>17,350,330</b>	<b>18,380,827</b>
<b>TOTAL LIABILITIES</b>	<b>20,673,018</b>	<b>22,034,964</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	781,809	2,067,825
<b>NET POSITION</b>		
Net investment in capital assets	187,832,223	189,915,775
Restricted	7,490,014	6,623,733
Unrestricted	74,484,241	75,715,827
<b>TOTAL NET POSITION</b>	<b>269,806,478</b>	<b>272,255,335</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 291,261,305</b>	<b>\$ 296,358,124</b>

*The accompanying notes to the financial statements are an integral part of this statement.*

**South San Joaquin Irrigation District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
For the Years Ended December 31, 2015 and 2014

	<b>2015</b>	<b>Restated 2014</b>
<b>OPERATING REVENUES</b>		
Irrigation sales	\$ 1,870,583	\$ 1,923,377
Treated water sales	6,234,979	6,352,507
Other water sales	5,964,762	36,664
Electric sales	194,731	239,318
Other	307,643	239,307
<b>Total Operating Revenues</b>	<b>14,572,698</b>	<b>8,791,173</b>
<b>OPERATING EXPENSES</b>		
Wages	6,823,055	6,633,103
Payroll taxes and benefits	4,104,522	5,106,987
Materials and supplies	1,683,012	1,529,729
Maintenance, repairs, and improvements	723,413	695,280
Utilities	1,015,870	1,090,150
Conservation		56,365
General and administrative	4,247,941	3,645,789
Depreciation	6,816,446	6,813,750
<b>Total Operating Expenses</b>	<b>25,414,259</b>	<b>25,571,153</b>
<b>Net Loss From Operations</b>	<b>(10,841,561)</b>	<b>(16,779,980)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Proposition 13 subvention property taxes	4,787,711	4,116,678
Interest income	1,305,938	1,335,145
Changes in market value of investments	(1,018,746)	(930,970)
Interest expense	(301,564)	(348,029)
Gain (loss) on property and equipment	22,093	32,186
Tri-Dam Project distributions	4,379,500	4,662,000
Undistributed earnings of Tri-Dam Project	(2,010,161)	(750,894)
Other nonoperating revenues	67,184	856,099
<b>Total Nonoperating Revenues (Expenses)</b>	<b>7,231,955</b>	<b>8,972,215</b>
<b>Net (Loss) before Contributions</b>	<b>(3,609,606)</b>	<b>(7,807,765)</b>
Capital contributions	1,160,749	1,237,048
<b>Change in Net Position</b>	<b>(2,448,857)</b>	<b>(6,570,717)</b>
<b>Net Position, Beginning of Year as Previously Reported</b>	<b>272,255,335</b>	<b>289,613,326</b>
Restatement		(10,787,274)
<b>Net Position, Beginning of Year Restated</b>	<b>272,255,335</b>	<b>278,826,052</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 269,806,478</b>	<b>\$ 272,255,335</b>

*The accompanying notes to the financial statements are an integral part of this statement.*

**South San Joaquin Irrigation District**  
**Statements of Cash Flows**  
For the Years Ended December 31, 2015 and 2014

	<b>2015</b>	<b>Restated 2014</b>
	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 13,711,191	\$ 9,134,993
Other receipts	22,907	4,227
Payments for goods and services	(12,999,604)	(11,439,843)
Payments to employees for services	(7,622,029)	(7,413,881)
<b>Cash Used by Operating Activities</b>	<u>(6,887,535)</u>	<u>(9,714,504)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property tax receipts	4,593,866	3,898,814
Other nonoperating revenue	67,184	856,099
<b>Cash Provided by Noncapital Financing Activities</b>	<u>4,661,050</u>	<u>4,754,913</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	1,160,749	1,237,048
Proceeds from the sale of capital assets	22,092	32,186
Purchase of capital assets	(2,412,520)	(1,269,126)
Principal payments on long-term debt	(2,260,000)	(4,290,000)
Interest payments on long-term debt	(474,601)	(621,900)
<b>Cash Used by Capital and Related Financing Activities</b>	<u>(3,964,280)</u>	<u>(4,911,792)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1,331,529	1,488,889
Purchases of investment securities	(43,170,521)	(23,118,439)
Proceeds from sales and maturities of investment securities	44,721,846	34,612,589
Decrease (Increase) in notes and loans receivable	203,137	33,427
Capital contribution to Tri-Dam Project		(301,479)
Tri Dam Project cash distributions	4,379,500	4,662,000
<b>Cash Provided by Investing Activities</b>	<u>7,465,491</u>	<u>17,376,987</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,274,726	7,505,604
Cash and Cash Equivalents at Beginning of Year	<u>13,927,437</u>	<u>6,421,833</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 15,202,163</u>	<u>\$ 13,927,437</u>
 <b>RECONCILIATION OF CASH TO BALANCE SHEET</b>		
Cash & cash equivalents - unrestricted	\$ 10,960,208	\$ 8,608,929
Cash & cash equivalents - restricted	4,241,955	5,318,508
<b>Cash &amp; cash equivalents - total</b>	<u>\$ 15,202,163</u>	<u>\$ 13,927,437</u>

*The accompanying notes to the financial statements are an integral part of this statement.*

South San Joaquin Irrigation District  
 Statements of Cash Flows  
 For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
<b>RECONCILIATION OF NET LOSS FROM OPERATIONS TO CASH USED FOR OPERATING ACTIVITIES</b>		
<b>Net Loss From Operations</b>	\$ (10,841,561)	\$ (16,779,980)
Depreciation	6,816,446	6,813,750
<b>(Increase) Decrease in operating assets</b>		
Accounts receivable	(837,759)	359,592
Prepaid expenses	(494,969)	352,215
Inventories	94,613	5,001
Deferred outflows of resources - pension	(1,622,681)	(354,670)
<b>Increase (Decrease) in operating liabilities</b>		
Accounts payable	(107,963)	320,156
Conservation program liability	(218,076)	(614,472)
Accrued expenses	11,093	41,240
Unearned revenue	8,788	(6,252)
Net obligation for other post-employment benefits	(7,833)	(31,074)
Compensated absences	41,040	51,168
Deferred inflows of resources - pension	(1,286,016)	2,067,825
Net pension liability	1,557,343	(1,939,003)
<b>Cash Used by Operating Activities</b>	<b>\$ (6,887,535)</b>	<b>\$ (9,714,504)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>		
Decrease in fair value of investments in marketable securities	\$ (1,018,746)	\$ (930,970)
Decrease in investment in Tri Dam Project, net of cash received	(2,010,161)	(776,126)

*The accompanying notes to the financial statements are an integral part of this statement.*

## Notes to the Basic Financial Statements

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# Notes to the Basic Financial Statements

## **NOTE 1 – Organization and Description of Business**

The South San Joaquin Irrigation District was formed in 1909 and operates as a nonregulated special district of the State of California under the California Water Code, which authorizes the district to provide water, electricity, and related recreational facilities. The district provides and distributes irrigation water from the Stanislaus River to a region surrounding the cities of Manteca, Escalon and Ripon. The boundaries encompass about 72,200 acres. The district also owns and operates the Nick C. DeGroot Water Treatment Plant which processes potable water for the cities of Manteca, Escalon, Tracy, and Lathrop. The district is governed by an elected five-member board of directors. The board of directors has the authority to fix rates and charges for the district's commodities and services. The district may also incur indebtedness, including issuing bonds and certificates of participation, and is exempt from federal and state income taxes.

## **NOTE 2 – Summary of Significant Accounting Policies**

Significant accounting policies are those where generally accepted accounting principles require the district to choose from allowable alternative methods.

### **A. Reporting Entity**

Tri-Dam Project is a joint venture formed in 1948 under a joint cooperation agreement between the district and Oakdale Irrigation District for the purpose of operating the dams, reservoirs, canals, and hydroelectric generating plants jointly and equally owned by the district and the Oakdale Irrigation District. As required by Governmental Accounting Standards Board Statement numbers 14 and 61, these financial statements present the district as well as the district's one half share of the Tri-Dam Project because the district has an equity interest in Tri-Dam Project. Tri-Dam Project also issues separate financial statements which may be obtained by writing to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to [clerk@tridamproject.com](mailto:clerk@tridamproject.com) or on the web at <http://www.tridamproject.com/reports.aspx>.

The district is a member, with the Oakdale Irrigation District, in the Tri-Dam Power Authority which owns and operates a dam, reservoir, and hydroelectric generating plant at Sandbar. The Tri-Dam Power Authority is a joint powers authority and issues its own audited financial statements which may be obtained by writing to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to [clerk@tridamproject.com](mailto:clerk@tridamproject.com) or on the web at <http://www.tridamproject.com/reports.aspx>. These financial statements do not include the Tri-Dam Power Authority because the district has only a residual interest, not an equity interest, in the assets of Tri-Dam Power Authority.

The district is a member of the San Joaquin River Group Authority (SJRG), and also of the San Joaquin Tributaries Authority (SJTA). The SJRG was created in 1996 as a joint powers

## Notes to the Basic Financial Statements

authority consisting of the district, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, Friant Water Users Authority, and San Joaquin River Exchange Contractors Water Authority in order to represent these organizations in the investigation, monitoring, planning, control, mitigation of water issues, and enhancement of the environmental conditions in the Delta which impact the members. The agreement terminates in December 2036, unless extended by the participants. The SJTA was formed in 2012 for similar purposes with the district, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, and the City and County of San Francisco as members. These financial statements do not include the SJRGA or the SJTA because the district has only a residual interest, not an equity interest, in the assets of these entities. Both the SJRGA and the SJTA issue financial statements which can be obtained by contacting the executive director of the SJTA at <http://calsmartwater.org/contact/>.

### **B. Basis of Accounting**

These financial statements are prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the acknowledged standard setting body for accounting and financial reporting standards followed by government entities in the United States. The district is presented as a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where activities are financed in whole or in substantial part by fees charged in exchange for goods and service provided by the district. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, so revenues are recognized when earned rather than when received, and expenses are recorded when incurred rather than when paid.

Internal transactions between operating divisions of the district have been recorded for management purposes. These internal transactions have been eliminated to avoid double counting of revenues and expenses in the consolidated financial statements.

GASB requires a distinction in the financial statements between operating and nonoperating revenues and expenses, but GASB has not established a standard for the distinction. The district classifies as operating revenues those charges for goods and services which constitute the primary business activities of the district. Operating expenses are those required to provide the primary goods and services of the district and to earn the operating revenues.



# Notes to the Basic Financial Statements

## **C. Cash and Cash Equivalents**

GAAP allows a financial statement issuer to choose the focus of the statement of cash flows as either cash or “cash and cash equivalents”. The district reports restricted and unrestricted cash, including bank deposits and the district’s investment in the State of California Local Agency Investment Fund (LAIF), as well as cash equivalents in the statement of cash flows. The district defines cash equivalents as certain highly liquid investments with an original maturity of three months or less, including only money market mutual funds. Other securities with an original maturity of three months or less not meeting this definition are not reported as cash equivalents.

## **D. Investment Basis**

All investments are carried at their fair market value. Market values may have changed significantly after year-end.

## **E. Restricted Assets**

The use of some assets can be restricted to certain purposes by law, by grantors of the assets, by enforceable legislative acts of the district’s board of directors, or by contracts to which the district is a party. When the district has a choice to use either restricted or unrestricted funds, the district’s policy is normally to use restricted funds first. The debt service reserve is established under the terms of the 2012A Revenue Refunding Bonds to be used in the event of inadequate funds to pay debt service. The capital replacement reserve of the water treatment plant is funded by the municipal wholesale customers under an agreement that limits the use of those funds to the cost of capital assets of the water treatment plant.

## **F. Accounts Receivable**

Trade and property tax receivables are not shown net of an allowance for uncollectible amounts because the amounts estimated by management to be uncollectible are deemed immaterial. Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate is limited generally to one percent of assessed value, and can be levied by only the county, and shared by applicable jurisdictions within the county. The County of San Joaquin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due to the county on November 1 and March 1, and become delinquent on December 10 and April 10. The district receives property taxes pursuant to an arrangement with the County known as the “Teeter Plan”. Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the district. The district recognizes property tax revenues in the year for which they are levied.

# Notes to the Basic Financial Statements

## G. Inventory

Inventories are valued at cost based upon physical determinations made at the end of each year. Inventories are assumed to be consumed on the “last in, first out” basis.

## H. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

## I. Capital Assets

Property, plant, equipment and infrastructure are reported at historical cost. Items costing at least \$10,000 with an estimated useful life of more than one year are capitalized. The district capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Donated property and assets constructed by developers are recorded at their acquisition value at the date of donation. Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives as are follows:

<u>Assets</u>	<u>Years</u>
Dams, canals and distributor laterals	25-100
Pumping equipment and turbines	10-50
Drainage laterals	40-100
Buildings	19-40
Machinery and equipment	5-20
Office equipment	3-15
Vehicles and trucks	4-10

## J. Conservation Liability

The district offered an on-farm conservation program until early 2014, where the district reimbursed irrigators for part of the cost of installing qualifying conservation measures in order to improve efficiency of use of the district’s water resource. Under the on-farm program, an irrigator proposed new water conservation measures for their farm under guidelines issued by the district. The district determined whether the proposal qualified, and if it did, then the district committed to reimburse the farmer for a portion of the cost of the approved measures subject to installation by the farmer and inspection by the district. When the district initially approved an irrigator’s conservation proposal, it recorded a liability for the expected reimbursement amount. Once the conservation measures were installed and satisfactorily inspected, the district paid the cost-share

## Notes to the Basic Financial Statements

reimbursement to the farmer and relieved the liability for that project. Proposals have not been accepted since early 2014, and cost-share reimbursements continued until the conservation liability was fully satisfied during 2015.

### **K. Compensated Absences**

The total amount of liability for compensated absences is reflected in the basic financial statements. It is the district's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is liability for all unpaid vacation time and for varying portions of unpaid accumulated sick leave. According to the district's collective bargaining agreements with its employees, upon retirement or other termination of employment, the value of an employee's unused vacation time, and a varying portion of unused sick leave, will be paid to the employee. Instead of receiving cash for unused sick leave upon retirement, qualified employees may elect to exchange some or all of their unused sick leave for post-employment healthcare benefits ("OPEB"). The financial statements report the amount of the liability for OPEB estimated by a professional actuary as explained in note 12. The amount of the OPEB liability depends on an actuarial estimate of how many sick leave hours, attributable to past service as of the balance sheet date, will eventually be exchanged for OPEB. Beginning with 2013 this quantity of sick leave hours is excluded from the estimation of the compensated absences liability.

### **L. Long-Term Debt**

Bond premiums and deferred amounts on refunding are deferred and amortized over the life of the related debt. Bonds payable are reported net of the applicable bond premium. Deferred amounts on refunding are reported as deferred inflows or outflows of resources on the balance sheet. Debt issuance costs are expensed as incurred.

### **M. Pensions**

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

### **N. Deferred Inflows and Outflows of Resources**

In addition to assets and liabilities, the balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net

## Notes to the Basic Financial Statements

position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the district's pension plans under GASB Statement No. 68 as described in Note 12.

### O. Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### P. Reclassification

The unspent debt proceeds held for future debt service payments at December 31, 2014 were reclassified out of the net investment in capital assets and into unrestricted net position to be consistent with the current year presentation. This reclassification had no effect on total net position as of December 31, 2014.

### NOTE 3 – Cash and Investments

#### A. Classification

Cash and investments are classified in the financial statements as shown below at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents - unrestricted	\$ 10,960,208	\$ 8,608,929
Cash and cash equivalents - restricted	<u>4,241,955</u>	<u>5,318,508</u>
Total cash and cash equivalents	<u>15,202,163</u>	<u>13,927,437</u>
Investments in marketable securities - current portion, unrestricted	27,985,021	26,673,056
Investments in marketable securities - noncurrent portion, unrestricted	2,506,353	8,300,024
Investments in securities - restricted (reserves for debt service, water treatment plant)	<u>3,209,556</u>	<u>1,297,921</u>
Total investments in marketable securities	<u>33,700,930</u>	<u>36,271,001</u>
Total cash and investments	<u>\$ 48,903,093</u>	<u>\$ 50,198,438</u>

# Notes to the Basic Financial Statements

## B. Investment Policy

Under the provisions of the district’s investment policy, and in accordance with the California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Bonds issued by the District	5 years	N/A	None	N/A
Obligations issued by United States government or its agencies	5 years	N/A	None	None
Obligations of any state or any local agency within any state in the United States	5 years	N/A	None	None
Bankers acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	AAA/Aaa	25%	10%
Negotiable certificates of deposits	5 years	N/A	30%	None
Medium term corporate notes	5 years	A	30%	None
California Local Agency Investment Fund	N/A	N/A	None	None
Collateralized obligations and mortgage backed bonds	5 years	A	20%	None
Repurchase agreements	1 year	N/A	None	None
Money market funds	N/A	AAA/Aaa*	20%	10%
Obligations of International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank	5 years	AA	0.3	None

\*Must have highest rating from two nationally recognized statistical organizations.

## Notes to the Basic Financial Statements

The following table summarizes investments that are authorized by the district's long-term debt agreement, which are not subject to the limitations of the California Government Code:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Cash	N/A	FDIC insured or collateralized	N/A	N/A
US Treasury obligations	N/A	N/A	N/A	N/A
US agency obligations representing full faith and credit of United States	N/A	N/A	N/A	N/A
Federal National Mortgage Association	N/A	N/A	N/A	N/A
Federal Home Loan Mortgage Corporation	3 years	AAA/Aaa	N/A	N/A
Deposit accounts, CDs, federal funds and banker's acceptances with domestic banks	360 days	FDIC insured or: A-1, A-1+, or P-1	N/A	N/A
Commercial paper	270 days	A-1+/P-1	N/A	N/A
Money market fund	N/A	AAAm/AAArn-G	N/A	N/A
Pre-refunded municipal obligations from any US state	N/A	Highest of Moody's or S & P	N/A	N/A
Investment Agreements supported by opinions of counsel	N/A	AA by S&P	N/A	N/A
Local Agency Investment Fund	N/A	N/A	N/A	N/A

### C. Interest Rate Risk and Credit Risk

Interest rate risk is the risk that increases in market interest rates will decrease the market value of an investment. Normally, the longer the remaining maturity of an investment, the greater is the sensitivity of its market value to changes in the market interest rates. The district's investment policy limits exposure to interest rate risk by requiring that maturities be planned to accommodate the district's operating cash flow forecast so that securities can be held to maturity to avoid realizing losses on premature sales. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

## Notes to the Basic Financial Statements

Information about the interest rate risk and the credit risk of the district's investments is provided by the following table that shows the district's investments by maturity as of December 31, 2015 and the credit ratings assigned.

### 2015 INVESTMENTS BY MATURITY AND RATINGS

Category	Moody's or S&P Rating	Year of Maturity			Total
		2016	2017	2018	
<b>State and municipal debt</b>					
	A	\$ 1,156,824	\$ -	\$ -	\$ 1,156,824
	A-	127,205			127,205
	A Insured	249,218			249,218
	A- Insured	102,123			102,123
	A+		199,488	637,583	837,071
	A1	1,184,171			1,184,171
	A1 Insured	1,564,854			1,564,854
	A2 Insured	847,224			847,224
	A3	101,804			101,804
	A3 Insured	2,216,000	511,545		2,727,545
	AA	6,282,648			6,282,648
	AA-	1,738,792			1,738,792
	AA Insured	621,476		242,654	864,130
	AA- Insured	343,748	342,713	347,092	1,033,552
	AA+	1,683,916			1,683,916
	Aa1	3,169,371			3,169,371
	Aa2	1,232,051			1,232,051
	Aa3 Insured	289,272			289,272
	AAA	1,375,590	1,262,482		2,638,072
	SP-1	50,844			50,844
<b>Total state and municipal debt</b>		<b>24,337,129</b>	<b>2,316,228</b>	<b>1,227,328</b>	<b>27,880,685</b>
<b>Negotiable certificates of deposit</b>					
	FDIC Insured	2,693,741	489,672		3,183,412
<b>Corporate debt</b>					
	A-	1,519,769			1,519,769
	BBB+	1,117,063			1,117,063
		<b>2,636,832</b>			<b>2,636,832</b>
<b>Total</b>		<b>29,667,702</b>	<b>2,805,900</b>	<b>1,227,328</b>	<b>33,700,930</b>

## Notes to the Basic Financial Statements

Information about the interest rate risk and the credit risk of the district's investments is provided by the following table that shows the district's investments by maturity as of December 31, 2014 and the credit ratings assigned.

### 2014 INVESTMENTS BY MATURITY AND RATINGS

Category	Moody's or S&P Rating	Year of Maturity			Total
		2015	2016	2017	
<b>US Agencies</b>					
	AA+	\$ -	\$ -	\$ 2,990,640	\$ 2,990,640
<b>State and municipal debt</b>					
	No Rating	358,775			358,775
	A	333,053			333,053
	A-	302,283			302,283
	A Insured	252,658	245,088		497,746
	A1 Insured	753,248	801,796		1,555,044
	A2	973,622			973,622
	A2 Insured	2,582,750	605,028		3,187,778
	A3 Insured	2,994,368			2,994,368
	AA	1,283,516	850,995		2,134,511
	AA-	768,625	206,900		975,525
	AA- Insured	824,665	105,463		930,128
	AA+	1,300,147	204,582		1,504,729
	Aa1	1,502,070			1,502,070
	AA+ Insured	117,604			117,604
	Aa1	456,098	2,000,540		2,456,638
	Aa2	458,777	517,265		976,042
	Aa3	568,851			568,851
	Aa3 Insured	628,721	114,275		742,996
	AAA	1,747,544	652,699		2,400,243
	M1G1	231,214			231,214
	SP-1	510,323			510,323
	AA Insured	294,968	340,357		635,325
	BBB	527,945			527,945
<b>Total state and municipal debt</b>		<b>19,771,825</b>	<b>6,644,988</b>		<b>26,416,813</b>
<b>Negotiable certificates of deposit</b>					
	FDIC Insured	6,129,912	733,636		6,863,548
<b>Total</b>		<b>\$ 25,901,737</b>	<b>\$ 7,378,624</b>	<b>\$ 2,990,640</b>	<b>\$ 36,271,001</b>

The district is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The district reports its investment in LAIF at the fair value amount



## Notes to the Basic Financial Statements

provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, notes and bills of the United States Treasury, and of corporations.

### D. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds, which represent 5% or more of total district-wide investments were as follows at December 31, 2015.

Issuer	Investment Type	Amount
Tennessee State School Bond Authority	Municipal Bonds	\$ 4,995,100

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds that represent 5% or more of total district-wide investments were as follows at December 31, 2014.

Issuer	Investment Type	Amount
Federal National Mortgage Association	U. S. Agencies	\$ 2,990,640
Sonoma County, California	Municipal Bonds	2,312,303

At December 31, 2015, cash included \$2,922,490 held in commercial banks, and at December 31, 2014, cash included \$837,938, all of which was either insured by the Federal Deposit Insurance Corporation or collateralized as required by State Law (Government Code Section 53630).

### NOTE 4 – Accounts and Notes Receivable

Accounts receivable are composed of the following elements:

	2015	2014
Proposition 13 subvention property taxes	\$ 2,371,323	\$ 2,177,478
Water treatment plant sales to cities	1,251,766	677,161
Irrigation charges	417,472	392,954
Water transfer	244,500	
Miscellaneous	8,443	14,307
Total	<u>\$ 4,293,504</u>	<u>\$ 3,261,900</u>

## Notes to the Basic Financial Statements

Notes and loans receivable consist of one significant amount at December 31, 2015 and December 31, 2014. This amount is a note receivable from a real estate development firm in the principal amount of \$314,691 and accrued interest of \$524 at December 31, 2015, and the principal amount of \$503,647 and accrued interest of \$14,705 at December 31, 2014. This note is for reimbursement to the district for costs to build irrigation facilities which the developer was responsible to provide to the district under the terms of a developer's agreement. The interest rate is variable with a minimum annual rate of 2%. The minimum rate of 2% has been in effect since June 1, 2012 through the date of this report. The developer is dividing property in order to sell building lots. Upon the sale of each lot, \$1,500 is due the district for payment of interest and principal until all interest and principal is paid. During 2015, the developer made a number of payments to the district, which were applied both to accrued interest and principal. Any principal and interest remaining unpaid on June 1, 2017 is due on that date.

## Notes to the Basic Financial Statements

### **NOTE 5 – Investment in the Tri-Dam Project**

The district has a fifty percent investment in the Tri-Dam Project. The Tri-Dam Project's condensed audited financial data is presented below.

#### Tri Dam Project Condensed Balance Sheets December 31, 2015 and 2014

	<b>2015</b>	<b>2014 Restated</b>
Current assets	\$ 17,577,108	\$ 19,344,690
Capital assets	64,830,835	65,609,741
Deferred outflows	280,212	237,494
<b>Total assets and deferred outflows</b>	<b>\$ 82,688,155</b>	<b>\$ 85,191,925</b>
Current liabilities	\$ 846,020	\$ 718,754
Noncurrent liabilities	4,244,947	3,256,485
<b>Total liabilities</b>	<b>5,090,967</b>	<b>3,975,239</b>
Deferred inflows - pension	1,448,310	1,047,486
Net investment in capital assets	64,830,835	65,609,741
Unrestricted net position	11,318,043	14,559,459
<b>Total net position</b>	<b>76,148,878</b>	<b>80,169,200</b>
<b>Total liabilities, deferred inflows, and net position</b>	<b>\$ 82,688,155</b>	<b>\$ 85,191,925</b>

## Notes to the Basic Financial Statements

### Condensed Statements of Revenues, Expenses, & Changes in Net Position For the Years Ended December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b> <b>Restated</b>
Operating revenues	\$ 15,302,362	\$ 15,460,554
Operating expenses	9,569,222	7,081,774
<b>Net Income from Operations</b>	<b>5,733,140</b>	<b>8,378,780</b>
Nonoperating Revenues (Expenses)		
Beardsley boat launch grant revenue		
Reimbursements	171,341	184,330
Water sales	106,953	107,041
Rental of equipment and facilities	79,596	134,407
Investment earnings	43,633	46,699
Other nonoperating revenue	24,417	275,197
River habitat studies	(1,148,448)	(907,193)
Goodwin Dam expenses	(271,954)	(302,551)
(Loss) gain on disposal of capital assets		(94,504)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(994,462)</b>	<b>(556,574)</b>
<b>Change in Net Position</b>	<b>4,738,678</b>	<b>7,822,206</b>
Net position, beginning of year as previously reported	80,169,200	84,886,822
Restatement		(3,818,791)
Net position, beginning of year restated	80,169,200	81,068,031
Add: contribution of land by member districts		602,963
Less: distributions to member districts	(8,759,000)	(9,324,000)
<b>Net Position, End of Year</b>	<b>\$ 76,148,878</b>	<b>\$ 80,169,200</b>

The restatement of 2014 for Tri-Dam Project was to record Tri-Dam Project's net pension liability and related deferred inflows and outflows as required to implement Governmental Accounting Standards Board Statement Number 68.

# Notes to the Basic Financial Statements

## NOTE 6 – Capital Assets

Changes in capital assets accounts for the year ended December 31, 2015 are summarized below:

	December 31, 2014	Additions	Disposals	Transfers and Adjustments	December 31, 2015
<b>Capital assets not being depreciated:</b>					
Land	\$ 1,382,984	\$ -	\$ -	\$ -	\$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	652,722	1,794,076		(1,079,842)	1,366,956
Construction in progress - WTP	8,100			(8,100)	
<b>Total</b>	<b>8,391,132</b>	<b>1,794,076</b>		<b>(1,087,942)</b>	<b>9,097,266</b>
<b>Capital assets being depreciated:</b>					
Improvements	480,176				480,176
Dams, canals, and laterals	105,234,341	81,113		589,196	105,904,650
Buildings	1,559,475				1,559,475
Vehicle and excavators	3,946,320	152,342	(84,880)		4,013,782
Machinery and equipment	9,892,328	68,436		490,646	10,451,410
Water treatment plant ("WTP") vehicles	454,884				454,884
WTP improvements	711,229	12,500			723,729
WTP building and equipment	50,073,506	199,889		8,100	50,281,495
WTP original construction	66,095,744	16,500			66,112,244
WTP pump stations - original construction	9,745,313				9,745,313
Solar plant	11,974,734				11,974,734
<b>Total</b>	<b>260,168,050</b>	<b>530,780</b>	<b>(84,880)</b>	<b>1,087,942</b>	<b>261,701,892</b>
<b>Less accumulated depreciation:</b>					
Improvements	(231,437)	(28,796)		3,293	(256,940)
Dams, canals, and laterals	(33,568,744)	(2,250,331)			(35,819,075)
Buildings	(601,736)	(33,040)			(634,776)
Vehicle and excavators	(2,707,532)	(314,185)	84,881	(3,293)	(2,940,129)
Machinery and equipment	(2,160,173)	(298,452)			(2,458,625)
Water treatment plant ("WTP") vehicles	(323,236)	(28,003)			(351,239)
WTP improvements	(190,492)	(43,271)			(233,763)
WTP building and equipment	(10,090,019)	(1,307,371)			(11,397,390)
WTP original construction	(12,787,294)	(1,685,798)			(14,473,092)
WTP pump stations - original construction	(2,595,597)	(327,627)			(2,923,224)
Solar plant	(3,328,761)	(499,572)			(3,828,333)
<b>Total</b>	<b>(68,585,021)</b>	<b>(6,816,446)</b>	<b>84,881</b>		<b>(75,316,586)</b>
<b>Net Depreciable Capital Assets</b>	<b>191,583,029</b>	<b>(6,285,666)</b>		<b>1,087,942</b>	<b>186,385,306</b>
<b>Net Capital Assets</b>	<b>\$ 199,974,161</b>	<b>\$ (4,491,590)</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 195,482,572</b>

# Notes to the Basic Financial Statements

Changes in capital assets accounts for the year ended December 31, 2014 are summarized below:

	December 31, 2013	Additions	Disposals	Transfers and Adjustments	December 31, 2014
<b>Capital assets not being depreciated:</b>					
Land	\$ 1,382,984	\$ -	\$ -	\$ -	\$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	122,483	895,952		(365,713)	652,722
Construction in progress - WTP		8,100			8,100
<b>Total</b>	<b>7,852,793</b>	<b>904,052</b>		<b>(365,713)</b>	<b>8,391,132</b>
<b>Capital assets being depreciated:</b>					
Improvements	480,176				480,176
Dams, canals, and laterals	104,868,628			365,713	105,234,341
Buildings	1,559,475				1,559,475
Vehicle and excavators	3,896,369	160,214	(110,263)		3,946,320
Machinery and equipment	9,833,486	58,842			9,892,328
Water treatment plant ("WTP") vehicles	465,741		(10,857)		454,884
WTP improvements	630,135	81,094			711,229
WTP building and equipment	49,981,311	92,195			50,073,506
WTP original construction	66,095,744				66,095,744
WTP pump stations - original construction	9,732,439	12,874			9,745,313
Solar plant	11,974,734				11,974,734
<b>Total</b>	<b>259,518,238</b>	<b>405,219</b>	<b>(121,120)</b>	<b>365,713</b>	<b>260,168,050</b>
<b>Less accumulated depreciation:</b>					
Improvements	(199,347)	(32,090)			(231,437)
Dams, canals, and laterals	(31,340,251)	(2,228,493)			(33,568,744)
Buildings	(568,696)	(33,040)			(601,736)
Vehicle and excavators	(2,481,550)	(336,245)	110,263		(2,707,532)
Machinery and equipment	(1,870,765)	(289,408)			(2,160,173)
Water treatment plant ("WTP") vehicles	(297,472)	(36,621)	10,857		(323,236)
WTP improvements	(142,416)	(48,076)			(190,492)
WTP building and equipment	(8,792,893)	(1,297,126)			(10,090,019)
WTP original construction	(11,101,822)	(1,685,472)			(12,787,294)
WTP pump stations - original construction	(2,270,905)	(324,692)			(2,595,597)
Solar plant	(2,826,274)	(502,487)			(3,328,761)
<b>Total</b>	<b>(61,892,391)</b>	<b>(6,813,750)</b>	<b>121,120</b>		<b>(68,585,021)</b>
<b>Net Depreciable Capital Assets</b>	<b>197,625,847</b>	<b>(6,408,531)</b>		<b>365,713</b>	<b>191,583,029</b>
<b>Net Capital Assets</b>	<b>\$ 205,478,640</b>	<b>\$ (5,504,479)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 199,974,161</b>

# Notes to the Basic Financial Statements

## **NOTE 7 – Operating Leases**

The district utilizes various pieces of equipment that are leased under a number of non-cancelable operating leases. These leases contain renewal options for additional future periods. Minimum rental payments due under the leases for future calendar years are as follows:

2016	\$ 22,957
2017	8,712
2018	8,712
2019	<u>7,573</u>
Total	<u>\$ 31,669</u>

## **NOTE 8 – Long-term Liabilities**

### **A. Description of individual long-term debt issues outstanding**

Long-term debt at December 31, 2015 and 2014 consists of Refunding Revenue Bonds Series 2012A issued on May 3, 2012 in an advance refunding of all the outstanding Revenue Certificates of Participation Series 2008A. The Series 2008A Revenue Certificates of Participation were issued on July 1, 2008 in the original amount of \$25,000,000 and the proceeds were for construction of a solar power generating plant and capital improvements to the district's irrigation transmission and distribution system. Series 2012A was issued in the original amount of \$17,975,000 plus an original issue premium of \$1,751,145. The Bonds are secured by a lien on the net water system revenues. The terms of the Bonds require the district to annually collect net revenues of at least 125% of annual debt service, after subtracting operating and maintenance expenses. Future debt service requires principal payments, ranging from \$2,355,000 to \$2,545,000 due on October 1 annually through 2019, and semi-annual interest payments, ranging from \$50,900 to \$146,900, due on April 1 and October 1 through 2019. Coupon rates are 4.0% per annum.

# Notes to the Basic Financial Statements

## B. Required disclosure of long-term debt activity

Activity during the years ending December 31, 2015 and 2014, in the long-term debt accounts, was as shown in the following tables:

	Restated December 31,			December	Due Within
	2014	Additions	Reductions	31, 2015	One Year
<b>Long-Term Liabilities</b>					
2012A Refunding Bonds	\$ 9,605,000	\$ -	\$ (2,260,000)	\$ 7,345,000	\$ -
Original issue premium on 2012A Refunding Bonds	818,485		(276,072)	542,413	222,037
Subtotal long term debt	10,423,485		(2,536,072)	7,887,413	222,037
Net obligation for other post- employment benefits	68,401	117,174	(125,007)	60,568	
Compensated absences	1,259,563	871,591	(830,552)	1,300,602	998,469
Net pension liability	7,764,910	1,557,343		9,322,253	
<b>Total long term liabilities</b>	<b>\$ 19,516,359</b>	<b>\$ 2,546,108</b>	<b>\$ (3,491,631)</b>	<b>\$ 18,570,836</b>	<b>\$ 1,220,506</b>

### Deferred Outflows of Resources

Deferred amount on refunding of 2008A Certificates of Participation	\$ 365,100	\$ -	\$ (128,036)	\$ 237,064	\$ 102,976
Pension	1,180,703	1,622,681		2,803,384	
<b>Total deferred outflows</b>	<b>\$ 1,545,803</b>	<b>\$ 1,622,681</b>	<b>\$ (128,036)</b>	<b>\$ 3,040,448</b>	<b>\$ 102,976</b>

	Restated December 31,			Restated December 31,	Due Within
	2013	Restated Additions	Restated Reductions	2014	One Year
<b>Long-Term Liabilities</b>					
2012A Refunding Bonds	\$ 13,895,000	\$ -	\$ (4,290,000)	\$ 9,605,000	\$ -
Original issue premium on 2012A Refunding Bonds	1,137,095		(318,610)	818,485	276,073
Subtotal long term debt	15,032,095		(4,608,610)	10,423,485	276,073
Net obligation for other post- employment benefits	99,475	116,868	(147,942)	68,401	
Compensated absences	1,208,394	1,267,539	(1,216,370)	1,259,563	859,460
Net pension liability	9,703,913		(1,939,003)	7,764,910	
<b>Total long term liabilities</b>	<b>\$ 26,043,877</b>	<b>\$ 1,384,407</b>	<b>\$ (7,911,925)</b>	<b>\$ 19,516,359</b>	<b>\$ 1,135,533</b>

### Deferred Outflows

Deferred amount on refunding of 2008A Certificates of Participation	\$ 512,864	\$ -	\$ (147,764)	\$ 365,100	\$ 128,036
Pension	826,033	354,670		1,180,703	
<b>Total deferred outflows</b>	<b>\$ 1,338,897</b>	<b>\$ 354,670</b>	<b>\$ (147,764)</b>	<b>\$ 1,545,803</b>	<b>\$ 128,036</b>



## Notes to the Basic Financial Statements

### C. Debt service requirements to maturity

Debt service requirements to maturity, for years ending December 31, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 293,800	\$ 293,800
2017	2,355,000	293,800	2,648,800
2018	2,445,000	199,600	2,644,600
2019	2,545,000	101,800	2,646,800
Total	<u>\$ 7,345,000</u>	<u>\$ 889,000</u>	<u>\$ 8,234,000</u>

### D. Defeasance of Debt

On December 29, 2015 the district defeased the 2016 maturities of the 2012A Bond Series by placing \$2,350,400 in an irrevocable trust to pay the \$2,260,000 principal amount of bonds maturing October 1, 2015 and \$90,400 of interest payable thereon April 1 and October 1, 2015. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements at December 31, 2015. The defeasance reduced the balance of long-term debt by the \$2,260,000 of defeased 2015 maturities, reduced the current portion of long-term debt to zero, and created a prepaid interest balance of \$67,800 at December 31, 2015. Interest on the remaining 2012A Bond maturities is payable in 2016, and subject to the 125% debt service coverage requirement. This reduced the minimum required net revenues, as defined in the 2012A bond indenture, needed to provide 125% debt service coverage.

On December 1, 2014 the district defeased the 2015 maturities of the 2012A Bond Series by placing \$2,267,200 in an irrevocable trust to pay the \$2,180,000 principal amount of bonds maturing October 1, 2015 and \$87,200 of interest payable thereon April 1 and October 1, 2015. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements at December 31, 2014. The defeasance reduced the balance of long-term debt by the \$2,180,000 of defeased 2015 maturities, reduced the current portion of long-term debt to zero, and created a prepaid interest balance of \$65,400 at December 31, 2014. Interest on the remaining 2012A Bond maturities was payable in 2015, and subject to the 125% debt service coverage requirement. This reduced the minimum required net revenues, as defined in the 2012A bond indenture, needed to provide 125% debt service coverage.

### E. Pledged Revenues

The district has pledged future water system revenues, net of specified operating expenses, to repay its Refunding Revenue Bonds Series 2012A, in the original amount of \$17,975,000. Proceeds of the bonds were used to refund a debt issuance as described above. The bonds are payable solely from net water system revenues and are payable

## Notes to the Basic Financial Statements

through October 2019. Annual principal and interest payments on the bonds are expected to require approximately 2% of net revenues in 2016. Total principal and interest remaining to be paid on the bonds was \$8,234,000 and \$10,968,600 at December 31, 2015 and 2014 respectively. Cash basis principal and interest paid on the bonds in 2015 was \$384,200 (not including \$2,350,400 paid into an escrow account to defease the 2016 maturities) and \$2,644,700 in 2014 (not including \$2,267,200 paid into an escrow account to defease the 2015 maturities). Total water system net revenues calculated in accordance with the covenants were \$9,900,201 and \$4,647,386 at December 31, 2015 and 2014, respectively, producing debt service coverage ratios of 2,577% for 2015 and 176% for 2014. Without the partial defeasance, the debt service coverage ratio for 2015 would have been 373%. Without the withdrawal from the rate stabilization fund, the debt service coverage ratio for 2014 would have been 151%.

### **F. Rate Stabilization Fund**

The district's debt agreement allows the district to establish a rate stabilization fund to assist in meeting the required debt service coverage ratio. Amounts deposited in the rate stabilization fund are included as expenses for purposes of the debt service coverage ratio in the year deposited and amounts withdrawn from the rate stabilization fund are included as revenues for purposes of the debt service coverage ratio in the year withdrawn. During 2015 there was no activity involving the rate stabilization fund, and in 2014 the district withdrew \$661,175 from the rate stabilization fund.

### **NOTE 9 – Net Position**

Net position is the excess of all the district's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. Net position is divided into three components.

"Net investment in capital assets" describes the portion of net position which represents the net book value of the district's capital assets, less the outstanding balance of any debt issued to finance these assets. If a material amount of such debt remains unspent, that amount of the debt is excluded from the calculation of net investment in capital assets.

## Notes to the Basic Financial Statements

Net investment in capital assets is made up of the following components as of December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Total capital assets, net of accumulated depreciation	\$ 195,482,572	\$ 199,974,161
Less current portion LT debt	(222,037)	(276,073)
Less noncurrent portion LT debt	(7,665,376)	(10,147,413)
Add deferred amount on refunding of 2012A Refunding Revenue Bonds	237,064	365,100
<b>Total</b>	<b>\$ 187,832,223</b>	<b>\$ 189,915,775</b>

The second component of net position is restricted net position, which consists of restricted assets less related liabilities. Restricted assets are assets whose use has been restricted to certain purposes by law, by grantors of the assets, by enforceable legislative acts of the district's board of directors, or by contracts to which the district is a party.

The following table shows the composition of restricted net position for December 31, 2015 and 2014.

	<b>2015</b>	<b>2014</b>
Debt service reserve	\$ 1,798,524	\$ 1,801,025
Construction fund		
Water treatment plant funds	5,652,987	4,815,404
Accrued interest receivable on restricted investments	38,503	7,304
<b>Total</b>	<b>\$ 7,490,014</b>	<b>\$ 6,623,733</b>

The third component of net position is unrestricted net position, which is simply the amount of net position that does not qualify as either restricted net position, or as net investment in capital assets. Included in the amount of unrestricted net position is the rate stabilization fund which had a balance of \$1,862,509 on December 31, 2015, and \$1,852,957 on December 31, 2014. The rate stabilization fund was established by the board of directors under the provisions of the indenture of trust for the Refunding Revenue Bonds Series 2012A and designated by the board to supplement the debt service coverage ratio as necessary and as permitted by the bond indenture.

# Notes to the Basic Financial Statements

## **NOTE 10 – Capital Contributions**

Capital contributions consist of cash and other property contributed to the district. Noncash contributed assets are recorded at estimated fair market value at the date of donation. The district recognized capital contributions from various sources as follows:

	<b>2015</b>		<b>2014</b>
Developers	\$	-	\$ 103,882
Municipal customers of water treatment plant		1,160,749	1,109,922
Irrigation customers			1,282
U. S. Natural Resources Conservation Service			21,962
	<b>\$</b>	<b>1,160,749</b>	<b>\$ 1,237,048</b>

## **NOTE 11 – Retirement Plan**

### **Plan Description**

All qualified permanent and probationary employees are eligible to participate in the district’s cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). The district participates in the Miscellaneous Risk Pool and the following rate plans:

- Miscellaneous Plan
- PEPRA Miscellaneous Plan

The Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants. Benefit provisions under the plans are established by state statute and SSJID 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 [www.calpers.ca.gov](http://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 Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

## Notes to the Basic Financial Statements

Plan provisions and benefits in effect for the years ended December 31 are summarized as follows:

	2015		2014	
	Miscellaneous Plan	PEPRA Plan	Miscellaneous Plan	PEPRA Plan
Hire date	Before 2013	After 2012	Before 2013	After 2012
Benefit formula at full retirement	2.5% @ 55	2.0% @ 62	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 - 55	52 - 67	50 - 55	52 - 67
Monthly benefits as % of eligible compensation	2.0 - 2.5%	1.0 - 2.5%	2.0 - 2.5%	1.0 - 2.5%
Required employee contribution rates:				
July 1 to December 31	8%	6.25%	8%	6.50%
January 1 to June 30	8%	6.50%	8%	6.50%
Required employer contribution rates:				
July 1 to December 31	9.671%	6.237%	19.315%	6.250%
January 1 to June 30	19.315%	6.250%	18.324%	6.250%

Before July 1, 2015, contributions required to amortize the net pension liability were included in the required employer contribution rate. Beginning with the year ended June 30, 2016, CalPERS began invoicing employers a monthly or annual amount, rather than a rate, to amortize the net pension liability. Therefore, the required employer contribution rate shows a significant decline after June 30, 2015.

### Contributions

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 the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the rate 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.

## Notes to the Basic Financial Statements

For the years ended December 31, the contributions for the rate plans were as follows:

	2015			2014		
	Misc. Plan	PEPRA Plan	Total	Misc. Plan	PEPRA Plan	Total
Employer contributions	\$ 995,062	\$ 20,579	\$ 1,015,640	\$ 1,231,502	\$ 9,858	\$ 1,241,360
Employee contributions paid by employer	333,171		333,171	320,900		320,900
Total	\$ 1,328,233	\$ 20,579	\$ 1,348,812	\$ 1,552,402	\$ 9,858	\$ 1,562,260

The 2015 employer contributions above include a payment of a \$555,358 invoice from CalPERS to amortize the “unfunded liability”. This amount was billed for the year ending June 30, 2016.

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

As of December 31, the district reported a net pension liability for its proportionate share of the net pension liabilities of the rate plans as follows:

	2015	2014
Miscellaneous Plan	\$ 9,322,902	\$ 7,764,792
PEPRA Miscellaneous Plan	(649)	118
Total	\$ 9,322,253	\$ 7,764,910

The district’s net pension liability for each rate plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the rate plans as of December 31, 2015 and 2014 is measured as of June 30, 2015 and 2014, and the total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 rolled forward to June 30, 2015 and 2014, respectively, using standard update procedures as required by GASB Statement No. 68. The district’s proportion of the net pension liability was based on a projection of the district’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

## Notes to the Basic Financial Statements

The district's proportionate share of the net pension liability for the rate plans as of June 30 was as follows:

	<u>Miscellaneous &amp; PEPRA Plans</u>	
	<u>2015</u>	<u>2014</u>
Proportion at June 30, 2014	0.3141800%	
Proportion at June 30, 2015	<u>0.3397980%</u>	
Increase (Decrease)	<u>0.0256180%</u>	
Proportion at June 30, 2013		0.2961520%
Proportion at June 30, 2014		<u>0.3141800%</u>
Increase (Decrease)		<u>0.0180280%</u>

For the years ended December 31, 2015 and 2014 the district recognized pension expense of \$235,753 and \$1,341,776 for both rate plans combined, respectively. At December 31, the district reported deferred outflows of resources and deferred inflows of resources related to both rate plans combined from the following sources:

	<u>2015</u>		<u>2014</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions after measurement date	\$ 774,333	\$ -	\$ 806,166	\$ -
Differences between actual and expected experience	82,636			
Change in assumptions		(781,809)		
Differences between employer's contributions and employer's proportionate share of contributions	245,414		374,537	
Change in employer's proportion	1,113,826			(178,818)
Net differences between projected and actual earnings on plan investments	<u>587,175</u>			<u>(1,889,007)</u>
Total	<u>\$ 2,803,384</u>	<u>\$ (781,809)</u>	<u>\$ 1,180,703</u>	<u>\$ (2,067,825)</u>

The \$774,333 and \$806,166 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2015 and 2014 will be recognized as a reduction of the net pension liability in the years ended December 31, 2016 and 2015, respectively.

## Notes to the Basic Financial Statements

Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows as of December 31:

<b>Deferred Outflows (Inflows)</b>		
<b>Year of Expense Recognition</b>	<b>Year of Origin</b>	
	<b>2015</b>	<b>2014</b>
2015		\$ (402,353)
2016	\$ 289,431	(402,353)
2017	275,452	(416,332)
2018	181,374	(472,250)
2019	500,985	
	<u>\$ 1,247,242</u>	<u>\$ (1,693,288)</u>

### Actuarial Assumptions

The total pension liabilities in the June 30, 2014 and 2013 actuarial valuations for each of the rate plans were determined using the following actuarial assumptions:

	<b>2015</b>	<b>2014</b>
Valuation Date	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry-age normal cost method	Entry-age normal cost method
Actuarial assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.2% - 12.2% <sup>(1)</sup>	3.3% - 14.2% <sup>(1)</sup>
Investment Rate of Return	7.65%	7.5% <sup>(2)</sup>
Mortality	Derived using CalPERS membership for all funds	

<sup>(1)</sup> Depending on entry age and service

<sup>(2)</sup> Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of a January 2014 actuarial



# Notes to the Basic Financial Statements

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 rates used by CalPERS to measure the total pension liability were 7.65% and 7.50% in the June 30, 2014 and 2013 valuations 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 are projected to 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. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% investment return assumption used in the June 30, 2014 valuation was corrected by CalPERS to no longer be reduced for administrative expenses. The 7.50 percent investment return assumption used in the June 30, 2013 valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent in the June 30, 2013 valuation. Using this lower discount rate resulted in a slightly higher total pension liability and net pension liability in the June 30, 2013 valuation. CalPERS assessed the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset/liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS board action and proper stakeholder outreach.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11- 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each

## Notes to the Basic Financial Statements

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 for each of the plans as of the measurement dates of June 30. 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	2015			2014		
	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global equity	51.00%	5.25%	5.71%	47.00%	5.25%	5.71%
Global fixed income	19.00%	0.99%	2.43%	19.00%	0.99%	2.43%
Inflation sensitive	6.00%	0.45%	3.36%	6.00%	0.45%	3.36%
Private equity	10.00%	6.83%	6.95%	12.00%	6.83%	6.95%
Real estate	10.00%	4.50%	5.13%	11.00%	4.50%	5.13%
Infrastructure and forestland	2.00%	4.50%	5.09%	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>			<u>100.00%</u>		

(a) An expected inflation rate of 2.5% used for this period.

(b) An expected inflation rate of 3.0% used for this period.

### 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 liability for the rate 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:

# Notes to the Basic Financial Statements

	<u>2015</u>	<u>2014</u>
Discount decreased 1 percentage point	6.65%	6.50%
Resulting net pension liability	\$ 15,634,057	\$ 12,443,384
Current discount rate	7.65%	7.50%
Resulting net pension liability	\$ 9,322,253	\$ 7,764,910
Discount increased 1 percentage point	8.65%	8.50%
Resulting net pension liability	\$ 4,111,113	\$ 3,882,219

## **Pension Plan Fiduciary Net Position**

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

## **Payable to the Pension Plan**

At December 31, 2015 and 2014, the district had no amounts payable to CalPERS for the outstanding amount of contributions to the pension plans including employee withholdings.

## **NOTE 12 – Other Post-Employment Benefits**

### **Plan Description**

The district provides a defined benefit other postemployment benefits (OPEB) healthcare plan that provides medical benefits to retired employees and their eligible dependents. The plan is an agent plan because plan assets are invested collectively with other agencies by CalPERS as described below. The plan has a maximum benefit ranging up to 100% of healthcare premiums for up to 180 months. The amount of the benefit depends on the employee’s number of unused sick days at the retirement date, length of employment and bargaining unit membership. Upon retirement, if qualified, the employee elects whether to participate in the plan by exchanging sick days for months of health insurance coverage, or to take a payment of accrued sick leave as described in Note 2K. Employees that elect to take a payment for accrued sick leave do not participate in the plan. The district’s board of directors has the authority to establish and amend benefit provisions. The plan does not issue separate financial statements.

### **Funding Policy**

The contribution requirements of plan members and the district are established and may be amended by the board of directors. The required contribution is based on prefunding of OPEB liabilities through the irrevocable trust account with the California Employers’ Retiree Benefit Trust, which is administered by CalPERS. The California Employers’

## Notes to the Basic Financial Statements

Retiree Benefit Trust is a tax qualified irrevocable trust organized under Internal Revenue Code Section 115 to administer retiree healthcare benefits and collectively invest plan assets of all trust members. The California Employers' Retiree Benefit Trust issues publicly available financial statements according to GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, in aggregate with other California Employers' Retiree Benefit Trust participating employers. The California Employers' Retiree Benefit Trust financial statements can be obtained from the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov). During the years ended June 30, 2015 and 2014, the district made health insurance premium payments on behalf of retirees of \$125,008 and \$147,942 respectively, in lieu of payments to the irrevocable trust. Plan members did not make any contributions to the plan.

### Annual OPEB Cost and Net OPEB Cost (Expense)

The district's annual OPEB cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the district's annual OPEB cost for the years ended June 30, 2015 and 2014, the amount actually contributed to the plan, and changes in the district's net OPEB obligation:

	<u>2015</u>	<u>2014</u>
Annual required contribution end of year	\$ 115,107	\$ 115,563
Interest on net OPEB obligation	4,830	7,023
Adjustment to annual required contribution	<u>(2,762)</u>	<u>(5,718)</u>
Annual OPEB cost (expense)	117,175	116,868
Contributions made including credited interest	<u>(125,008)</u>	<u>(147,942)</u>
Increase (decrease) in net OPEB obligation	(7,833)	(31,074)
Net OPEB obligation, beginning of period	<u>68,401</u>	<u>99,475</u>
Net OPEB obligation, end of period	<u>\$ 60,568</u>	<u>\$ 68,401</u>

The district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the three most recent years are as follows:

Year	Annual OPEB Cost	Percentage of Annual	
		OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 93,288	92.20%	\$ 99,475
2014	116,868	126.59%	68,401
2015	117,175	106.68%	60,568

# Notes to the Basic Financial Statements

## Funded Status and Funding Progress

The funded status of the plan as of December 31, 2015 and 2014, from the plan's most recent actuarial valuation, was as follows:

	<u>2015</u>	<u>2014</u>
Actuarial accrued liability ("AAL")	\$ 2,507,829	\$ 2,419,569
Value of plan assets	2,335,824	2,387,174
Unfunded actuarial accrued liability (asset) ("UAAL")	<u>\$ 172,005</u>	<u>\$ 32,395</u>
Funded ratio (value of plan assets/AAL)	93.14%	98.66%
Covered payroll (active plan participants)	\$ 6,763,055	\$ 6,573,103
UAAL (asset) as a percentage of covered payroll	2.54%	0.49%

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

## Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by CalPERS in the valuation of the district's pension plan. The actuarial assumptions included a 7.06 percent investment rate of return (net of administrative expenses), healthcare premium increases starting at 9.0 percent and declining to 4.64 percent for 2025 and later, a general inflation assumption of 3.0 percent, and projected salary increases of 3.25 percent. The UAAL is being amortized over a level percentage of projected payroll over a 30-year open period.

## Notes to the Basic Financial Statements

### **NOTE 13 – Other Nonoperating Revenues**

Other nonoperating revenues for 2014 includes an entitlement fee of \$736,000 received from an owner of land outside the district boundaries who is in the process of annexing his property to the district. Because the annexation requires LAFCo approval and the LAFCo process has been very slow, the landowner entered into an agreement with the district entitling the subject property to receive irrigation water from the district immediately, even before the annexation is complete, in exchange for the entitlement fee which is 75% of the amount of the annexation fee. If the annexation cannot be completed, the subject land is entitled to receive water for 50 years. If the annexation is completed, the entitlement fee will be credited toward the annexation fee. Water delivered under the entitlement agreement is subject to a volumetric rate that is 7 times higher than in-district customers pay.

Other nonoperating revenues for 2014 also includes a payment from a real estate developer in lieu of replacing a well which was in the way of the development project, and income from Lathrop Irrigation District for electric utility billing and related services.

Other nonoperating revenues for 2015 was entirely from fees for services the district provided to Lathrop Irrigation District. SSJID provides meter reading, billing, and customer service for Lathrop Irrigation District's retail electric utility.

### **NOTE 14 – Risk Management**

The district is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disaster, for which the district carries commercial insurance. The district is a member of the Special Districts Risk Management Authority (SDRMA). SDRMA is a risk pooling self-insurance authority, created under the provisions of California Government Code Section 6500, et. seq. The purpose of SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

## Notes to the Basic Financial Statements

The following is a summary of the insurance policies in force carried by the district as of December 31, 2015.

Type of Coverage	Limit per Occurrence	Aggregate Limit	Deductible
General liability	\$ 10,000,000	\$ -	\$ 500
Automobile liability (incl. personal injury, property damage)	10,000,000		1,000
Uninsured/Underinsured motorists	750,000		
Employment practices liability	10,000,000	10,000,000	
Workers comp - statutory	Statutory		
Workers comp – employer liability	5,000,000		
Public officials and employees E & O	10,000,000	10,000,000	
Personal liability for Board members	500,000	500,000	500
Employee benefits liability	10,000,000	10,000,000	
Property coverage (including fire & theft)	1,000,000,000		10,000
Property coverage - flood	10,000,000		250,000
Employee dishonesty	1,000,000		35,000
Boiler & machinery	100,000,000		1,000
Excess insurance	40,000,000		

The district paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the district are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The district considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

### **NOTE 15 – Commitments and Contingencies**

#### **Contract Commitments**

The district had the following significant contract commitments outstanding as of December 31, 2015 and 2014:

Project Name	Contract Amount	Remaining Commitment	
		Dec. 31, 2015	Dec. 31, 2014
Contract to study feasibility of pressurizing the irrigation distribution system	\$750,000	\$27,927	\$291,710

## Notes to the Basic Financial Statements

At December 31, 2015 the district had a contingent commitment to purchase a new model of filter modules for the water treatment plant in the amount of \$739,000. The district issued a purchase order for this purchase on December 18, 2015, but the district's acceptance of the modules was contingent on the vendor obtaining from the state required regulatory approval of the new modules. Approval from the state came early 2016 and the modules were received, installed, and paid for.

### **Matters Pending Before State Water Resources Control Board**

Bay Delta Water Quality Control Plan - Administrative Proceeding. The State Water Resources Control Board ("SWRCB") last updated the San Joaquin River and Southern Bay-Delta Water Quality Control Plan in 2006. The SWRCB is in the process of updating the requirements of the Plan and is expected to issue a revised substitute environmental document ("SED") in the near future as part of the process. It is expected that the SED will evaluate the effects of increased instream flows from those currently required from the San Joaquin River and its various tributaries, including the Stanislaus River. If the SWRCB implements new standards based on the water rights priority system as it has in the past, water rights of the United States Bureau of Reclamation ("USBR") for New Melones would be impacted before those of the district. The effect of the new standards on the district's water supply will depend upon what standard is adopted and how the SWRCB implements the new standard. It is not expected that implementation will be completed in 2016.

Water Fix Hearings. The SWRCB is currently conducting hearings on the Water Fix project, also known as the twin tunnels project. In this action, the State's Department of Water Resources and the U.S. Department of the Interior's Bureau of Reclamation are seeking approval of a change in their water rights. If approved, the two agencies would seek to construct new water diversion facilities in the lower Sacramento River to convey water through two tunnels to the existing State and federal pumping facilities near Tracy. This would result in a reduction of flow into the Sacramento/San Joaquin Delta and cause result in water quality concerns. The SWRCB could initiate further proceedings to consider taking measures to mitigate potential adverse effects to the water quality through additional flows or other measures. The legal responsibility for such impacts should be that of the agencies responsible for the Water Fix project, but the potential effect on SSJID is not known at this time.

Curtailment. In 2015, the SWRCB ordered that holders of licenses for diversion and storage of water curtail their water diversions. The SWRCB also ordered that the holders of pre-1914 water rights similarly curtail their water diversions. The orders were issued because of the ongoing drought. SSJID and other water rights holders considered the orders as to pre-1914 water rights to exceed the SWRCB's authority and filed lawsuits which are pending. While no curtailment order was issued in 2016, which was a year of average to above average precipitation, storage levels in New Melones Reservoir remain low. If 2016-17 is another dry year, the SWRCB could issue a new curtailment order and



## Notes to the Basic Financial Statements

the effect on the district will depend on the hydrology and the timing of when the order is issued. Compliance with the 2015 order did not materially affect 2015 operations of the district.

### **Water Quality Issues Before the Central Valley Water Quality Control Board**

Pollution standards under Clean Water Act. The Central Valley Water Quality Control Board is charged with responsibility to establish a program to set total maximum daily loads (“TMDL”) for the various pollutants that contribute to the San Joaquin River and its tributaries being listed as impaired water bodies. The river and its tributaries are also listed as impaired for temperature because of adverse impacts to fisheries. The district is potentially subject to TMDL enforcement measures to the extent that its diversion from the Stanislaus River, or its releases of drain water to the Stanislaus and San Joaquin Rivers, contribute to the problem. The possible impacts on the district are unknown at this time. The district participates in these regulatory proceedings jointly with other irrigation districts in the region.

### **Other Water Quality Issues**

The district operates a network of drainage facilities for its irrigation operations under an agricultural exemption from the Clean Water Act (“CWA”). The facilities discharge irrigation and storm drainage in the winter to the Stanislaus and San Joaquin Rivers. The storm drainage includes storm drainage from cities within the district. The cities’ discharge is not exempt and is subject to the CWA, including its permitting requirements. The district’s position, like that of other irrigation districts in the area, is that the storm drainage does not result in loss of the agricultural exemption under the CWA and has not sought a permit for its agricultural discharges. If this determination is ever challenged, and the district does not prevail, the district could be subject to prosecution and fines for violating the CWA and would be subject to the CWA’s permitting requirements.

### **Endangered Species Issues**

Jurisdiction over fisheries migrating to or in the oceans under the Endangered Species Act rests with the United States Department of Commerce’s National Marine Fisheries Service a division of the Oceanic and Atmospheric Administration (“NOAA”). In June, 2009, NOAA issued a Biological Opinion and imposed new flow requirements on the USBR in its operation of New Melones Reservoir. The new flow requirements and the effects of a multi-year drought have depleted the volume of water stored at New Melones Reservoir and impact the water available to the district and Oakdale Irrigation District (“OID”) under the 1988 Agreement and Stipulation. In 2015, the two districts notified the USBR and NOAA that water being released from New Melones into the Stanislaus River for the spring pulse flow was a violation of the two districts’ water rights and the districts threatened to withhold the water until their interests were protected. Later in the year, the two districts were compensated for the fall pulse flows released by the USBR under

## Notes to the Basic Financial Statements

an agreement which stipulated that the fall release used 2015's water, even though those flows occurred after the end of the 2015 water year. SSJID was compensated in part because of its extraordinary water conservation efforts in 2015, including the imposition of a 36" allotment it imposed on its customers. Because of continuing low storage in New Melones Reservoir this year and the same water supply concerns that led to the adoption of water allotment in 2015, the district's board of directors adopted a 40" allotment for 2016. In August of 2016, the district's board took additional action to relax the allotment through the remainder of the 2016 water year in light of the lower than expected water demand.

### **Retail Electric Litigation**

Pacific Gas & Electric Company v. San Joaquin County Local Agency Formation Commission. The San Joaquin County Local Agency Formation Commission ("LAFCo") approved the district's plan to provide electric utility distribution services in December, 2014. Pacific Gas & Electric Company ("PG&E") filed a lawsuit in February, 2015, to modify or overturn LAFCo's decision. SSJID is defending the case through outside counsel and is also paying the defense costs incurred by LAFCo. The case is expected to be resolved at the trial court level by the end of 2016. Either PG&E or SSJID may appeal the decision if adverse to their respective interests.

South San Joaquin Irrigation District v. PG&E. The district filed an eminent domain action in July, 2016, to acquire PG&E's retail electric distribution system within the district's boundaries. The case was filed after the district's board of directors approved a resolution of necessity on June 28, 2016, after conducting a public hearing at a meeting held on that date. The district will incur substantial outside legal costs in pursuing this case. If the district dismisses the case or the court determines that the district cannot acquire PG&E's property, the district would be responsible for PG&E's litigation expenses, as approved by the court.

### **Property Damage Litigation**

Diane Johnson v. SSJID. This is a lawsuit for property damage in December, 2010 caused by storm water. The property was previously damaged by flooding. The district's defense is provided by the district's insurance carrier without a reservation of rights. A judgment was issued after trial based at least in part on inverse condemnation and included an award of attorney's fees, for a total of approximately \$1.5 million. The case is now on appeal. The district's insurance policy excludes coverage for inverse condemnation, but an endorsement to the policy removes the exception and the district believes that if the decision is upheld on appeal, the judgment will be covered by its insurance policy.

# Notes to the Basic Financial Statements

## **Personnel Claims and Litigation**

Thomas J. Johnson v. SSJID. A former employee challenged his August, 2013 termination. An advisory arbitration on his grievance was conducted in accordance with the district's grievance provisions in the memorandum of understanding. The arbitrator's recommendation that the employee be reinstated was rejected by the district's board of directors. This action was filed in October, 2015 seeking to overturn the decision. The district's carrier accepted the district's defense and assigned counsel to defend the district under a reservation of rights. If the former employee prevails at trial, the district could be required to pay damages for the former employee's lost wages going back to his termination.

Concentration. The district receives a significant portion of its revenue from Tri-Dam Project. A significant reduction in this revenue for a prolonged period could have an impact on the district's operations.

## **NOTE 16 – Subsequent Events**

The district has evaluated events subsequent to the balance sheet dates through August 17, 2016. GASB Statement No. 56 requires consideration of subsequent "events that provide evidence with respect to conditions that did not exist at the date of the statement of net assets [balance sheet] but arose subsequent to that date." These subsequent events must be disclosed if their disclosure is essential to the user's understanding of the financial statements.

During January, 2016, the district received a distribution of \$1.9 million from Tri-Dam Project and in July, 2016, a distribution of \$6.1 million from Tri-Dam Project. The district was compensated by the California Department of Water Resources and the San Luis & Delta-Mendota Water Authority in the amount of \$9,750,000 for water released from New Melones Reservoir by the United States Bureau of Reclamation during April and May, 2016, with the intent of benefitting fish migration. Oakdale Irrigation District and SSJID released 65,000 acre-feet of jointly owned water and were each recompensed \$9,750,000. SSJID also entered into a water transfer of 10,000 acre-feet to Stockton East Water District with a delivery period of June, July, and August, 2016. The price is \$200 per acre-foot for water delivered to municipal and industrial consumers, and \$100 per acre-foot for irrigation water.

The winter of 2015-2016 produced slightly above average precipitation for the Stanislaus River drainage and average flows in the river. However, the quantity of water stored in New Melones was far below average so that the district imposed a limit of 40 vertical inches on the quantity of irrigation water to be provided during 2016. This is an increase from the 36-inch limit imposed for 2015.

## Notes to the Basic Financial Statements

In May, 2016, SSJID made an offer to Pacific Gas & Electric to purchase their electric distribution system within the boundaries of the district as a step in the district's effort to begin providing electric utility service to the district's customers. The amount of the offer was \$115,995,500 including \$92,700,000 for the property, and \$23,295,500 to compensate PG&E for separation and impairment costs. The offer was rejected by PG&E. On June 28, 2016 the SSJID board of directors adopted a resolution of necessity to authorize proceedings to acquire the PG&E assets by eminent domain. The outcome of the eminent domain effort may not be known for several years.

On October 13, 2015, the board of directors adopted a resolution electing for SSJID to become a groundwater sustainability agency within its service territory under the provisions of the Sustainable Groundwater Management Act of 2014. On November 19, 2015, SSJID's election package was posted on the website of the California Department of Water Resources. On December 15, 2015, the San Joaquin County Board of Supervisors voted for the county to elect to become a groundwater sustainability agency for the entire county. In January, 2016 the county filed its election to become a groundwater sustainability agency. The county's election invalidated the election of SSJID and other agencies whose elections conflict geographically with the county's, but the earlier elections by SSJID and other agencies invalidate the county's election. This leaves the county with no coverage by groundwater sustainability agencies. SSJID is holding discussions with the cities within its boundaries and with the county to resolve the question of which agencies will become groundwater sustainability agencies in SSJID's local area.

### **NOTE 17 – New Accounting Standards**

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)." This Statement replaces the requirements of GASB Statement No. 45 and requires governments responsible for OPEB liabilities related to their own employees to report a net OPEB liability on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for periods beginning after June 15, 2017.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State

## Notes to the Basic Financial Statements

and Local Governments. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

In December 2015, the GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement establishes criteria allowing investment pools meeting certain maturity, quality, diversification and other criteria to measure its investments at amortized cost for financial reporting purposes rather than at fair value and allowing the pool's users to measure their investment in the pool at amortized cost. This Statement is effective for periods beginning after June 15, 2015 with some provisions effective for periods beginning after December 15, 2015.

In January 2016, the GASB issued Statement No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14. This Statement amends the blending requirements for component units to add an additional criterion that requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the years beginning after June 15, 2016.

In March 2016, the GASB issued Statement No. 82, Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information, clarifies the use of the term deviation for the selection of assumptions, and clarifies the classification of employer-paid member contributions and the period in which they should be recognized. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

The district will fully analyze the impact of these new Statements prior to the effective dates listed above.

### ***NOTE 18 – Change in Accounting Principles***

As of January 1, 2014, the district adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. These Statements required the district to recognize a net pension liability, deferred outflows of resources and deferred inflows of resources for the district's pension plan.

Due to the implementation of these Statements, deferred outflows of resources of \$826,033 and a net pension liability of \$9,703,913 were recorded by the district for its pension plan, resulting in a decrease in net position of \$8,877,879 as of January 1, 2014. In addition, pension expense decreased by \$225,849 during the year ended December 31, 2014 due to the implementation of these Statements, resulting in an increase in the net

## Notes to the Basic Financial Statements

loss from operations and the change in net position of the same amount during the year. In addition, the Tri-Dam Project that is reported as an equity investment on the district's balance sheet implemented GASB Statement No. 68 as of January 1, 2014, resulting in a reduction in the investment in Tri-Dam Project of \$1,909,395 and a reduction in the undistributed loss for the year ended December 31, 2014 of \$25,232. The combined effect of the implementation of GASB Statement No. 68 was a reduction of January 1, 2014 net position of \$10,787,274 and an increase in the change in net position of \$251,081.

# Required Supplementary Information

# Required Supplementary Information

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## Required Supplementary Information

### Schedule of the Proportionate Share of the Net Pension Liability - Miscellaneous Plan (unaudited) Last 10 Years

	2015	2014
Proportion of the net pension liability	0.3397980%	0.3141800%
Proportionate share of the net pension liability	\$ 9,322,253	\$ 7,764,910
Covered - employee payroll	\$ 6,763,055	\$ 6,573,103
Proportionate share of the net pension liability as a percentage of covered payroll	137.84%	118.13%
Plan fiduciary net position	\$ 27,501,025	\$ 27,501,025
Plan fiduciary net position as a percentage of the total pension liability	72.51%	77.98%

#### Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 ( for 2015) and 2013 (for 2014) as they have minimal cost impact.

Changes in assumptions: None.

Omitted years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.

### Schedule of Contributions to the Pension Plan - Miscellaneous Plan (unaudited) Last 10 Years

	2015	2014
Contractually required contribution (actuarially determined)	\$ 1,348,812	\$ 1,562,260
Contributions in relation to the actuarially determined contributions	(1,348,812)	(1,562,260)
Contribution deficiency (excess)	\$ -	\$ -
Covered - employee payroll	\$ 6,763,055	\$ 6,573,103
Contributions as a percentage of covered - employee payroll	19.94%	23.77%

#### Notes to Schedule:

Valuation date: June 30, 2014 (for 2015) and June 30, 2013 (for 2014)

Methods and assumptions used to determine contribution rates:

Actuarial Method	Entry Age Normal Cost Method
Amortization Method	Difference Between Projected and Actual Earnings is Amortized Straight-line Over 5 Years. All Other Amounts are Amortized Straight-line Over Average Remaining Service Life of Participants
Remaining Amortization Period	Not Stated
Asset Valuation Method	5-year Smoothed Market
Inflation	2.75%
Salary Increases	3.20% to 12.20% (2015) 3.30% to 14.20% (2014) Depending on Entry Age and Service
Investment Rate Of Return	7.65% (2015) and 7.50% Net of Administrative Expenses (2014); Including Inflation.
Retirement Age	50-67 Years. Probabilities of Retirement are Based on the 2010 CalPERS Experience Study for the Period 1997 to 2007.
Mortality	CalPERS Specific Data from January 2014 Actuarial Experience Study for the Period 1997 to 2011 that Uses 20 Years of Mortality Improvements Using Society of Actuaries

Omitted Years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available

## Required Supplementary Information

### Required Supplementary Information for Other Postemployment Benefits (“OPEB”) Plan (unaudited)

The schedule of funding progress for the district’s OPEB, is presented below as required supplementary information, and reports multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### *Schedule of Funding Progress for Other Postemployment Benefits Plan*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2013	\$ 2,262,126	\$ 2,145,567	\$ (116,559)	105.43%	\$ 6,741,726	-1.73%
12/31/2014	2,387,174	2,419,569	32,395	98.66%	6,573,103	0.49%
12/31/2015	2,335,824	2,507,829	172,005	93.14%	6,763,055	2.54%