

**Santiago Aqueduct Commission**  
**Financial Statements**  
**Fiscal Year Ended June 30, 2016**

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Board of Directors  
Santiago Aqueduct Commission  
Irvine, California

### Independent Auditor's Report

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

We have audited the accompanying financial statements of the Santiago Aqueduct Commission (SAC), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SAC'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 respective financial position of SAC as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited Santiago Aqueduct's Commission financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated March 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016 on our consideration of SAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Irvine, California  
November 11, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Santiago Aqueduct Commission (SAC) provides an overview of SAC's financial activities for the fiscal year ended June 30, 2016. This section should be read in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

### **Financial Highlights:**

- Total assets exceeded total liabilities by \$454,644 (net position), representing \$61,613 in investment in capital assets and \$393,031 in unrestricted for water services. This is an increase of \$17,787 over the prior fiscal year net position of \$436,857.
- Total current assets are \$732,036, a decrease of \$323,098 over the prior fiscal year. Cash and Investments decreased \$100,144 primarily due to the payment to suppliers for amounts due in the prior year. Receivables decreased by \$222,954 as past dues invoices were collected and the current year reflects only the current month June invoices.
- Total noncurrent assets are \$61,613, a decrease of \$4,697 representing current year depreciation.
- Total liabilities decreased \$345,582 over the prior fiscal year. The decrease is due primarily to payment to suppliers for work done last year.
- Total revenues decreased by \$616,377 to \$1,427,906. Water sales decreased by \$310,784 to \$1,315,421. Sales to Trabuco County and Irvine Water Ranch Water District were lower as a result of water conversation by customers due to the statewide mandate to reduce water usage. In addition, last years revenues included cathodic protection revenue associated with the project upgrade which was completed last year.
- Total expenses were \$1,410,119, a decrease of \$623,373. Water purchases from Municipal Water District associated with the lower sales decreased by \$313,121. Expenses associated with the cathodic protection upgrade project last year decreased by \$320,877.

### **Overview of the Financial Statements:**

The basic financial statements of SAC consist of the financial statements (Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows) and notes to the basic financial statements. The basic financial statements are prepared using the accrual basis of accounting.

**Statement of Net Position** depicts SAC's financial position at June 30, 2016 the end of SAC's fiscal year. The statement of net position shows all financial assets and liabilities of SAC. Net position represents the SAC's residual interest after liabilities are deducted from assets. Net position is displayed in two components: net investment in capital assets and unrestricted for water services.

**Statement of Revenues, Expenses and Changes in Net Position** provides information on SAC's operations and can be used to determine whether SAC has recovered all of its costs through operating and non-operating revenues.

**Statement of Cash Flows** provides information on SAC's cash receipts, cash payments and changes in cash resulting from operations and investments activities.

**Notes to the Basic Financial Statements** provide additional information essential to a full understanding of the data provided in the basic financial statements.

## MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

### **Financial Analysis of the District:**

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating SAC’s overall financial position and results of operations as described in this Management’s Discussion and Analysis (MD&A).

### **Financial Position Summary:**

The Statement of Net Position reflects SAC’s financial position as of June 30, 2016. The statement includes assets and liabilities. The net position represents SAC’s net worth including, but not limited to contributions and investments in capital assets. A condensed summary of SAC’s total net position at June 30 is set forth below:

**Table 1 - Summary of Net Position**

	2016	2015	Increase/(Decrease)	
			Amount	Percentage
<b>Assets</b>				
Current assets	\$ 732,036	\$ 1,055,134	\$ (323,098)	-30.6%
Noncurrent assets	61,613	66,310	(4,697)	-7.1%
Total assets	<u>793,649</u>	<u>1,121,444</u>	<u>(327,795)</u>	<u>-29.2%</u>
<b>Liabilities</b>				
Current liabilities	<u>339,005</u>	<u>684,587</u>	<u>(345,582)</u>	<u>-50.5%</u>
Total liabilities	<u>339,005</u>	<u>684,587</u>	<u>(345,582)</u>	<u>-50.5%</u>
<b>Net position</b>				
Investment in capital assets	61,613	66,310	(4,697)	-7.1%
Unrestricted for water services	<u>393,031</u>	<u>370,547</u>	<u>22,484</u>	<u>6.1%</u>
Total net position	<u>\$ 454,644</u>	<u>\$ 436,857</u>	<u>\$ 17,787</u>	<u>4.1%</u>

As shown in Table 1, SAC’s total assets decreased \$327,795. Cash and Investments decreased \$100,144. Accounts Receivable decreased \$222,954 because of reduced water billings to Trabuco and Irvine Ranch Water District resulting from customer’s conservation efforts and include only the current month invoices as past due amounts from prior years were collected.

SAC’s total liabilities decreased \$345,582. The primary reason for the decrease was that payment to the supplier for the cathodic protection project completed last year was paid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net position at end of the current fiscal year is \$454,644 representing the excess of total assets of \$793,649 over total liabilities of \$339,005. Net position consists of investment in capital assets of \$61,613 and an unrestricted net position for water services of \$393,031.

### Activities and Changes in Net Position:

The Statement of Revenues, Expenses and Changes in Net Position summarizes SAC's operations during the current fiscal year. A Summary of SAC's changes in net position for the fiscal year ended June 30 is included in Table 2 below:

**Table 2 - Revenues, Expenses and Changes in Net Position**

	2016	2015	Increase/(Decrease)	
			Amount	Percentage
<b>Operating revenues</b>				
Water sales	\$ 1,315,421	\$ 1,626,205	\$ (310,784)	-19.1%
Member charges	94,685	79,985	14,700	18.4%
Cathodic protection upgrade revenue	16,426	337,303	(320,877)	-95.1%
<b>Total operating revenues</b>	<b>1,426,532</b>	<b>2,043,493</b>	<b>(616,961)</b>	<b>-30.2%</b>
<b>Non-operating revenues</b>	<b>1,374</b>	<b>790</b>	<b>584</b>	<b>73.9%</b>
<b>Total revenues</b>	<b>1,427,906</b>	<b>2,044,283</b>	<b>(616,377)</b>	<b>-30.2%</b>
<b>Operating expenses</b>				
Water purchases	1,282,252	1,595,373	(313,121)	-19.6%
Contract labor	35,910	40,527	(4,617)	-11.4%
Utilities	3,587	3,408	179	5.3%
Landscape	4,433	-	4,433	100.0%
Cathodic protection monitoring and maintenance	20,287	18,908	1,379	7.3%
Cathodic protection upgrade expense	16,426	337,303	(320,877)	-95.1%
Telemetry alarm	1,944	2,095	(151)	-7.2%
Equipment rental	-	370	(370)	-100.0%
General and administrative	40,583	30,810	9,773	31.7%
Depreciation expense	4,697	4,698	(1)	0.0%
<b>Total operating expenses</b>	<b>1,410,119</b>	<b>2,033,492</b>	<b>(623,373)</b>	<b>-30.7%</b>
Changes in net position	17,787	10,791	6,996	64.8%
Beginning Net Position	436,857	426,066	10,791	2.5%
<b>Ending Net Position</b>	<b>\$ 454,644</b>	<b>\$ 436,857</b>	<b>\$ 17,787</b>	<b>4.1%</b>

### Revenues:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

As shown in Table 2, SAC's operating revenues decreased \$616,377. SAC member agency water sales to Trabuco County Water District were 1,948 acre feet (A/F) this year compared to 2,531 A/F last year. Sales to the Irvine Ranch Water District were 276 A/F (acre feet) this year compared to 234 A/F last year. Water sales contributed 93 percent of total operating revenues in FY 2015-16. As mentioned above, water sales declined as a result of customer conservation efforts during the drought. Cathodic protection upgrade revenue decreased \$320,877 because the project was completed in FY 2014-15. Member charges used for standby charges ensure that funds are available when needed contributed 7 percent of total operating revenues this fiscal year.

### Expenses:

As shown in Table 2, SAC's operating expenses decreased \$623,373. Water purchases from the Municipal Water District of Orange County decreased \$313,121 due to lower sales. Cathodic protection expenses decreased \$320,877 due to completion of the project in FY 2014-15. Water purchases contributed 91 percent of total operating expenses. Landscaping increased in FY 2015-16 due to the hydro-seeding and maintenance project. General and Administrative expenses increased primarily due to FY 2015-16 audit fees and slightly higher insurance for additional bonding of SAC officers.

### Capital Assets:

SAC's investment in capital assets net of depreciation as of June 30 were as follows:

	2016	2015	Increase/(Decrease)	
			Amount	Percentage
Meters	\$ 3,875	\$ 5,567	\$ (1,692)	-30.4%
Bypass valve	30,214	31,804	(1,590)	-5.0%
Vault covers	27,524	28,939	(1,415)	-4.9%
Total	<u>\$ 61,613</u>	<u>\$ 66,310</u>	<u>\$ (4,697)</u>	<u>-40.3%</u>

Additional information on SAC's capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

### Contacting the District's Financial Management:

This financial report is designed to provide our member agencies with a general review of SAC's finances to show SAC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at the Santiago Aqueduct Commission, 15600 Sand Canyon Avenue, Irvine, California 92618-7500.



Santiago Aqueduct Commission  
Statement of Net Position  
June 30, 2016  
(with comparative data as of June 30, 2015)

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and investments (note2)	\$ 569,626	\$ 669,770
Receivables:		
Accounts receivable water	162,050	287,980
Interest Receivable	360	-
Accounts receivable standby	-	5,544
Accounts receivable Irvine Lake capacity lease	-	91,840
Total receivables	162,410	385,364
Total current assets	732,036	1,055,134
Noncurrent assets:		
Capital assets, net of depreciation (note 3)	61,613	66,310
Total noncurrent assets, net	61,613	66,310
<b>TOTAL ASSETS</b>	793,649	1,121,444
<b>LIABILITIES</b>		
Current liabilities:		
Account payable	281,428	610,584
Deposits cathodic project upgrade	57,577	74,003
<b>TOTAL LIABILITIES</b>	339,005	684,587
<b>NET POSITION</b>		
Investment in capital assets	61,613	66,310
Unrestricted for water services	393,031	370,547
<b>TOTAL NET POSITION</b>	\$ 454,644	\$ 436,857

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission  
Statement of Revenues, Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2016  
(with comparative data for the Fiscal Year Ended June 30, 2015)

	2016	2015
<b>OPERATING REVENUES:</b>		
Water sales	\$ 1,315,421	\$ 1,626,205
Member charges	94,685	79,985
Cathodic protection upgrade revenue	16,426	337,303
Total operating revenues	1,426,532	2,043,493
<b>OPERATING EXPENSES:</b>		
Water purchases	1,282,252	1,595,373
Contract labor	35,910	40,527
Utilities	3,587	3,408
Landscape	4,433	-
Cathodic protection monitoring	20,287	18,908
Cathodic protection upgrade expense	16,426	337,303
Telemetry Alarm	1,944	2,095
Equipment rental	-	370
General and administrative:		
Audit	5,000	-
Insurance	7,085	4,489
Legal	6,664	4,686
Administration management	21,400	21,400
Other	434	235
Depreciation	4,697	4,698
Total operating expenses	1,410,119	2,033,492
Operating income	16,413	10,001
<b>NONOPERATING REVENUES:</b>		
Interest Income	1,308	690
Increase in fair value of investments	66	100
Total nonoperating revenues	1,374	790
Increase in net position	17,787	10,791
<b>NET POSITION AT BEGINNING OF YEAR</b>	436,857	426,066
<b>NET POSITION AT END OF YEAR</b>	\$ 454,644	\$ 436,857

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2016  
(with comparative data for the Fiscal Year Ended June 30, 2015)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from member agencies	\$ 1,649,486	\$ 1,944,106
Cash paid to suppliers of goods and services	(1,751,004)	(1,767,290)
Net cash provided by (used for) operating activities	(101,518)	176,816
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	1,374	790
Net cash provided by investing activities	1,374	790
Net increase (decrease) in cash and cash equivalents	(100,144)	177,606
Cash and cash equivalents at beginning of year	669,770	492,164
Cash and cash equivalents at end of year	\$ 569,626	\$ 669,770
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 16,413	\$ 10,001
Depreciation	4,697	4,698
Interest receivables	(360)	-
(Increase) decrease in accounts receivables	223,314	(99,387)
Increase (decrease) in accounts payable	(329,156)	187,501
Increase (decrease) in deposits payable	(16,426)	74,003
Net cash provided by (used for) operating activities	\$ (101,518)	\$ 176,816
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>		
Fair value of investments adjustments	\$ 64	\$ 100

See accompanying notes to the basic financial statements.

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

### **A. Organization and Operations of the Reporting Entity**

The Santiago Aqueduct Commission (SAC) was formed in September 1961 as a multi-agency joint powers agency under the California Government Code section 6500. SAC was formed to finance, construct and maintain the Baker Pipeline designed to bring imported untreated water from the Metropolitan Water District of Southern California (MWD) to South Orange County. The Baker Pipeline was completed in 1962 and extended the MWD Santiago Lateral by 15 miles. SAC's member agencies include the County of Orange, East Orange County Water District, Irvine Ranch Water District, Santa Margarita Water District, Trabuco County Water District, The Irvine Company, El Toro Water District and Moulton Niguel Water District.

### **B. Basis of Accounting and Measurement Focus**

SAC's financial activities are accounted for as an enterprise fund. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from water sales and member charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

SAC's operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water operations. The principal operating revenues of SAC are charges to customers for water sales. Operating expenses include cost of sales and services, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, SAC uses restricted resources and then unrestricted resources.

### **C. Assets, Liabilities and Net Position**

#### **1. Use of Estimates**

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

#### **2. Cash and Investments**

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of 12 months or less. Investments are reported at fair value.

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

### **C. Assets, Liabilities and Net Position (continued)**

Changes in fair value that occur during the fiscal year are recognized as increase (decrease) in fair value of investments reported for that fiscal year. Interest income includes interest earnings on SAC's investments.

#### **3. Accounts Receivables**

SAC's accounts receivables are from its member agencies in the normal course of operations. Management has evaluated the accounts and believes they are collectible.

#### **4. Deposits**

The deposits for the cathodic protection pipeline from the corrosion project upgrade are amounts payable to SAC's member agencies.

#### **5. Capital Assets**

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical costs exist. SAC capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Meters	30 years
Valves	40 years
Vault Covers	40 years

#### **6. Net Position**

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

#### **7. Comparative Financial Statements and Reclassifications**

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

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

**8. Fair Value Measurements**

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect SAC's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the SAC's own data.

**(2) Cash and Investments**

Cash and investments as of June 30, 2016 consist of the following:

Deposits with financial institution	\$ 305,103
Investments-LAIF	<u>264,523</u>
Total cash and investments	<u>\$ 569,626</u>

**(2) Cash and Investments (continued)**

Investments Authorized by the California Government Code

The following table identifies the investment types that are authorized for SAC by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by a bond trustee governed by the provisions of debt agreements of SAC, rather than the general provisions of the California Government Code.

<u>Authorized Investment type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Orange County Treasury Pool	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization.

**(2) Cash and Investments (continued)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. **The remaining maturity of SAC's LAIF investment is 12 months or less.**

Investment in State Investment Pool

SAC is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of SAC's investment in this pool is reported in the accompanying financial statements at amounts based upon SAC'S pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. SAC categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. SAC considers the LAIF investment to be Level 2.

**(3) Capital Assets**

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

	Balance at <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2016</u>
Capital assets, being depreciated:				
Meters	\$ 50,788	\$ -	\$ -	\$ 50,788
Valve	63,609	-	-	63,609
Vault Covers	<u>56,543</u>	<u>-</u>	<u>-</u>	<u>56,543</u>
Sub-total	<u>170,940</u>	<u>-</u>	<u>-</u>	<u>170,940</u>
Less accumulated depreciation:				
Meters	(45,220)	(1,693)	-	(46,913)
Valve	(31,805)	(1,590)	-	(33,395)
Vault Covers	<u>(27,605)</u>	<u>(1,414)</u>	<u>-</u>	<u>(29,019)</u>
Sub-total	<u>(104,630)</u>	<u>(4,697)</u>	<u>-</u>	<u>(109,327)</u>
Total capital assets, net	<u>\$ 66,310</u>	<u>\$ (4,697)</u>	<u>\$ -</u>	<u>\$ 61,613</u>