

Suisun Solano Water Authority
Executive Committee Meeting
February 6, 2016
Agenda Item 5.2
Attachment 1

**SUISUN/SOLANO WATER AUTHORITY
(JOINT POWERS AUTHORITY)
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016 AND 2015**

* * *



CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE, SUITE 180
SAN JOSE, CA 95129

Suisun/Solano Water Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Suisun/Solano Water Authority
City of Suisun City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Suisun/Solano Water Authority (the "Authority"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's 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 opinions 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 Authority'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 Authority'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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of Suisun/Solano Water Authority, 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.

Other Matters

New Accounting Pronouncements

As discussed in Note 1 to the financial statements, the Authority adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Comparative Information

The financial statements of the Authority for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on December 28, 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Suisun/Solano Water Authority's basic financial statements. The supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.



The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2017 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

C & A LLP

January 6, 2017
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Suisun/Solano Water Authority
Management's Discussion and Analysis
June 30, 2016

This section of the Authority's financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2016. It is intended to serve as an overview to the Authority's required financial statements. Please read it in conjunction with Authority's financial statements and accompanying notes, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's FY 2015-16 financial highlights are listed below and the changes indicated are in relation to the FY 2014-15 audited financial statements. These results are also discussed in more detail later in the report.

- The total ending Net Position increased by \$515,030 from prior year mostly because of increases in water sales and water capacity fees.
- Total revenues increased by \$891,225 from prior year because of increased water sales.
- Total expenses increased by \$279,352 from prior year mainly related to increases in general operations and maintenance expenses.
- As a result of the previously noted financial highlights, the Change in Net Position increased by \$956,638 over prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the Management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain the information in the financial statements in more detail.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the Authority report information about the Authority's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Fund Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. This statement reflects the result of the Authority's operations over the past year as well as non-operating revenues and expenses.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operational, capital and investing activities. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Suisun/Solano Water Authority
Management's Discussion and Analysis
June 30, 2016

FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authority's finances is "Is the Authority better off or worse off as a result of the year's activities?" The Statement of Fund Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. The difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources (net position) is one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET POSITION

A summary of the Authority's Statement of Net Position is presented in Table 1.

Table 1 - Summary of Net Position				
	Fiscal Year Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2016	2015	Over 2015	
Assets				
Current and Other Assets	\$ 9,897,221	\$ 11,405,915	\$ (1,508,694)	-13.2%
Capital assets	17,077,949	14,956,780	2,121,169	14.2%
Total assets	<u>\$ 26,975,170</u>	<u>\$ 26,362,695</u>	<u>\$ 612,475</u>	<u>2.3%</u>
Deferred Outflows of Resources	<u>\$ 55,711</u>	<u>\$ 111,419</u>	<u>\$ (55,708)</u>	<u>-50.0%</u>
Liabilities				
Long-term liabilities	\$ -	\$ 640,000	\$ (640,000)	-100.0%
Current liabilities	1,655,946	974,210	681,736	70.0%
Total liabilities	<u>\$ 1,655,946</u>	<u>\$ 1,614,210</u>	<u>\$ 41,736</u>	<u>2.6%</u>
Net Position				
Net investment in capital assets	\$ 16,493,660	\$ 13,758,199	\$ 2,735,461	19.9%
Restricted	7,195,977	7,041,540	154,437	2.2%
Unrestricted	1,685,298	4,060,165	(2,374,867)	-58.5%
Total net position	<u>\$ 25,374,935</u>	<u>\$ 24,859,904</u>	<u>\$ 515,030</u>	<u>2.1%</u>

As seen above, net position increased by \$515,030 over prior year. This increase resulted mainly from an increase in water sales and water capacity fees.

As of June 30, 2016, the largest portion of the Authority's total net position was the amount invested in capital assets, net of debt, which increased by \$2,735,461.

Suisun/Solano Water Authority
Management's Discussion and Analysis
June 30, 2016

Table 2 below summarizes the Authority's changes in net position for the year.

Table 2 - Statement of Changes in Net Position				
	Fiscal Year Ended June 30,		Increase	Percent
	2016	2015	(Decrease) 2015	Increase (Decrease)
Revenues				
Operating revenues	\$ 5,059,223	\$ 4,210,675	\$ 848,548	20.2%
Nonoperating revenues	113,101	70,424	42,677	60.6%
Total revenues	<u>5,172,324</u>	<u>4,281,099</u>	<u>891,225</u>	<u>20.8%</u>
Expenses				
Operating expenses	4,899,130	4,584,445	314,685	6.9%
Nonoperating expenses	122,218	157,551	(35,333)	-22.4%
Total expenses	<u>5,021,348</u>	<u>4,741,996</u>	<u>279,352</u>	<u>5.9%</u>
Income before capital contributions	150,976	(460,897)	611,873	132.8%
Capital contributions				
Water capacity fees	<u>364,055</u>	<u>19,290</u>	<u>344,765</u>	<u>1787.3%</u>
Change in net position	515,031	(441,607)	956,638	216.6%
Net position - beginning of period	<u>24,859,904</u>	<u>25,301,511</u>	<u>(441,607)</u>	<u>-1.7%</u>
Net position - end of period	<u>\$25,374,935</u>	<u>\$24,859,904</u>	<u>\$ 515,031</u>	<u>2.1%</u>

The Statement of Revenues, Expenses and Changes in Fund Net Position reflects the Authority's operating and non-operating revenues and expenses. Total revenues increased and total expenses decreased over prior year because of the following:

- Total operating revenues increased by \$848,548 or 20%. This was mainly the result of an increase in water sales.
- Total operating expenses increased by \$314,685 or 7%. This was mainly related to increases in general operations and maintenance expenses.
- Capital contributions increased by \$344,765 over last year, due to increases in water capacity fees collected.

Suisun/Solano Water Authority
Management's Discussion and Analysis
June 30, 2016

CAPITAL ASSETS

The Authority's investment in capital assets as of June 30, 2016 amounts to approximately \$17.1 million, net of accumulated depreciation. The investment in capital assets includes construction in progress, pipeline improvements and equipment including water treatment facilities and connections. The Authority's investment in capital assets, net of related debt has increased by \$2,735,461. There were a total of \$2,955,828 in asset additions including adjustments and \$834,659 recorded as depreciation expense. For additional details regarding capital assets, please refer to Note 3 in the notes to the basic financial statements.

Table 3 shows a summary of capital assets owned by the Authority as of June 30, 2016.

Table 3 - Summary of Capital Assets				
	<u>Fiscal Year Ended June 30,</u>		Increase	Percent
	2016	2015	(Decrease)	Increase
			2015	(Decrease)
Land and improvements	\$ 87,324	\$ 87,324	\$ -	0.0%
Construction in progress	3,059,659	788,220	2,271,439	288.2%
Water facilities	36,300,661	35,616,272	684,389	1.9%
Office equipment	56,447	56,447	-	0.0%
Less - accumulated depreciation	<u>(22,426,142)</u>	<u>(21,591,483)</u>	<u>(834,659)</u>	<u>-3.9%</u>
Capital assets - net	<u>\$ 17,077,949</u>	<u>\$ 14,956,780</u>	<u>\$ 2,121,169</u>	<u>14.2%</u>

RESTRICTED INVESTMENTS

The Indenture of Trust of the 1993 Water Revenue Refunding Bonds requires that certain moneys be held in restricted accounts for debt service. These moneys are presented as restricted investments on the Statement of Net Position.

DEBT ADMINISTRATION

As of June 30, 2016, the Authority has outstanding revenue bond debt of \$640,000. The Bond Issue has a rating of "AAA" from Standard and Poor's Corporation, which demonstrates that the Authority has a very strong capacity to meet its financial obligations. For additional details regarding long term debt, please refer to Note 4 in the notes to the basic financial statements.

FACTORS BEARING ON THE AUTHORITY'S FUTURE

On April 13, 2015, after a series of public outreach on the proposed water rate increase based on the Updated Financial Plan and Water Rate Study performed by NBS, the Suisun-Solano Water Authority (SSWA) Board adopted water rate increases in the next five years effective July 2015. Water rates are required to be set at levels sufficient to cover the cost of: 1) ongoing operations and maintenance; 2) construction upgrade, repair and replacement of water system facilities; 3) long-term debt obligations; 4) acquisition of materials and supplies; 5) labor and administration; and 6) maintenance of adequate reserves. Water rates do not cover costs associated with additional capacity

Suisun/Solano Water Authority
Management's Discussion and Analysis
June 30, 2016

or facilities for future customers. The Authority has implemented the second series of the water rate increase last July 2016.

The adopted budget for Fiscal Year 2016-2017 includes the approved water rate increase and a 3% inflation rate for labor and other operating expenses. As a result, the operating fund budget for fiscal year 2016-17 has a structural surplus, where ongoing revenue exceeds ongoing expenditure including debt service by about \$128,569.

The water rate increase in the next five years are projected to generate sufficient income to sustain the operating cost as well as keeping the operating reserve at 25% level.

The fiscal year 2016-17 adopted budget allocated \$3.3 million of capacity fund for 2MG water tank capital project at the Cement Hill.

On August 8, 2016, the Authority through Board Resolution No. 16-09 authorized and approved the issuance of water revenue bond in a principal amount not to exceed \$10,000,000. The bond proceeds will provide funds to finance capital improvements pursuant to the capital improvement plan.

On September 13, 2016 the Authority sold 30-year bonds with an aggregate principal amount of \$8,240,000 and a premium of \$1,495,894.60. On October 4, 2016 the bond proceeds of \$9,500,000 was deposited into the Authority's account, net of \$235,894.60 issuance costs. The Board on October 11, 2016 approved a total of \$6,689,500 capital projects to be funded by the bond proceeds.

The 2016 Bonds are the first series of planned indebtedness to be issued by the Authority to fund its capital improvement program. The Authority may in the future issue additional bonds and/or obtain loans from the State that would be payable from net revenues on a parity basis with the 2016 Bonds, for the purpose of financing additional capital improvement.

CONTACTING THE AUTHORITY

This report is intended to provide the Authority's constituents with a general overview of the Authority's finances and operations. If you have any questions about this report or need additional information, you may submit a request in writing to:

Suisun-Solano Water Authority
Finance Department
701 Civic Center Blvd.
Suisun City, CA 94585
Phone: 707-421-7320
Fax: 707-421-7364

BASIC FINANCIAL STATEMENTS

SUISUN/SOLANO WATER AUTHORITY
(A JOINT POWERS AUTHORITY)
STATEMENT OF NET POSITION
JUNE 30, 2016
(With Comparative Totals as of June 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and investments	\$ 8,076,439	\$ 9,755,400
Accounts receivable	412,246	301,483
Unbilled receivables	528,600	464,281
Prepaid expenses	6,405	7,334
Total current assets	<u>9,023,690</u>	<u>10,528,498</u>
Capital assets:		
Land and improvements	87,324	87,324
Construction in progress	3,059,659	788,220
Water facilities	36,300,661	35,616,272
Office equipment	56,447	56,447
Accumulated depreciation	(22,426,142)	(21,591,483)
Total capital assets, net	<u>17,077,949</u>	<u>14,956,780</u>
Restricted assets:		
Investments	873,531	877,417
Total restricted assets	<u>873,531</u>	<u>877,417</u>
Total assets	<u>\$ 26,975,170</u>	<u>\$ 26,362,695</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding	<u>\$ 55,711</u>	<u>\$ 111,419</u>
 LIABILITIES		
Current liabilities:		
Accounts payable	\$ 912,016	\$ 205,915
Interest Payable	5,920	12,117
Accrued liabilities	22,620	18,504
Deposits payable	75,390	67,674
Current portion of bonds payable	640,000	670,000
Total current liabilities	<u>1,655,946</u>	<u>974,210</u>
Noncurrent liabilities:		
Water Revenue Refunding Bonds, net	-	640,000
Total noncurrent liabilities	<u>-</u>	<u>640,000</u>
Total liabilities	<u>\$ 1,655,946</u>	<u>\$ 1,614,210</u>
 NET POSITION		
Net investment in capital assets	\$ 16,493,660	\$ 13,758,199
Restricted	7,195,977	7,041,540
Unrestricted	1,685,298	4,060,165
Total net position	<u>\$ 25,374,935</u>	<u>\$ 24,859,904</u>

The notes to basic financial statements are an integral part of this statement

SUISUN/SOLANO WATER AUTHORITY
(A JOINT POWERS AUTHORITY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

	2016	2015
Operating revenues:		
Water sales	\$ 4,650,307	\$ 3,865,648
Other water revenues	408,916	345,027
Total operating revenues	<u>5,059,223</u>	<u>4,210,675</u>
Operating expenses:		
Wells, tanks and transmission lines	1,042,330	1,279,498
General operations and maintenance	2,199,989	1,692,395
Billing and collection	822,152	779,403
Depreciation and amortization	834,659	833,149
Total operating expenses	<u>4,899,130</u>	<u>4,584,445</u>
Operating income (loss)	<u>160,093</u>	<u>(373,770)</u>
Nonoperating revenues (expenses):		
Interest income	113,101	70,424
Interest expense	(122,218)	(157,551)
Net non-operating revenues (expenses)	<u>(9,117)</u>	<u>(87,127)</u>
Income before capital contributions	150,976	(460,897)
Capital contributions - water capacity fees	<u>364,055</u>	<u>19,290</u>
Change in net position	<u>515,031</u>	<u>(441,607)</u>
Net position at beginning of fiscal year	<u>24,859,904</u>	<u>25,301,511</u>
Net position at end of fiscal year	<u>\$ 25,374,935</u>	<u>\$ 24,859,904</u>

The notes to basic financial statements are an integral part of this statement

SUISUN/SOLANO WATER AUTHORITY
(JOINT POWERS AUTHORITY)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,891,857	\$ 4,228,615
Payments to Solano Irrigation District for operations and maintenance	(2,210,539)	(2,733,015)
Payments to City of Suisun City for administration and billing	(1,081,482)	(883,066)
Payments to other suppliers	(61,304)	(205,779)
Net cash provided by (used for) operating activities	1,538,532	406,755
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Water capacity fees	364,055	19,290
Principal paid on revenue bonds	(670,000)	(630,000)
Interest paid on revenue bonds	(72,706)	(107,670)
Acquisition and construction of capital assets	(2,955,828)	(323,158)
Net cash provided by (used for) capital and related financing activities	(3,334,479)	(1,041,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (decrease) in restricted investments	3,885	(13,070)
Interest received	113,101	70,425
Net cash provided by (used for) investing activities	116,986	57,355
 Net increase (decrease) in cash and cash equivalents	 (1,678,961)	 (577,428)
 Cash and cash equivalents at beginning of fiscal year	 9,755,400	 10,332,828
Cash and cash equivalents at end of fiscal year	\$ 8,076,439	\$ 9,755,400
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ 160,093	\$ (373,770)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	834,659	833,149
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(175,082)	26,011
(Increase) decrease in prepaid expenses	929	1,160
Increase (decrease) in accounts payable	706,101	(73,349)
Increase (decrease) in accrued liabilities	4,116	1,626
Increase (decrease) in deposits payable	7,716	(8,072)
Net cash provided by (used for) operations	\$ 1,538,532	\$ 406,755

The notes to basic financial statements are an integral part of this statement

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The financial reporting entity

On May 17, 1976, the Solano Irrigation District and the City of Suisun City entered into a Joint Powers Agreement for the construction and operation of a District Water System in the Tolenas area. In 1982, the District operated the water treatment function only. The maintenance and operation of the entire water system was taken over by the District effective January 1, 1990. The responsibility for all financial accounting functions is that of the City of Suisun City.

For financial purposes, the Suisun/Solano Water Authority Joint Powers Authority (the "Authority") includes all of the enterprise funds relevant to the operations of the Authority. The Authority does not meet the required criteria to be considered a component unit of either the Solano Irrigation District or the City of Suisun City. It was established to be a separate and distinct entity. The Authority is considered a joint venture without an equity interest between the City of Suisun City and the Solano Irrigation District. As a result, the Authority is not reflected in the City of Suisun City's nor Solano Irrigation District's financial statements.

The Solano Irrigation District is responsible for the operation and maintenance of all water facilities under control of the Authority. The City of Suisun City is responsible for all of the billing of water service and shall collect and invest all monies. Both the Solano Irrigation District and the City of Suisun City are paid for their respective services rendered.

B. Measurement focus, basis of accounting, and basis of presentation

The financial statements of the Authority are presented as those of an enterprise fund under the broad category of funds called proprietary funds. All proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting.

With the economic resources measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded in its statement of net position. Under the accrual basis of accounting, all revenues are recognized when earned, and all expenses, including depreciation, are recognized when liabilities are incurred or economic assets utilized.

Deferred outflows of resources is a consumption of net assets by the Authority that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net assets by the Authority that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows of resources.

Enterprise funds account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The acquisition and capital

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

improvement of the physical plant facilities requires that these goods and services be financed from existing cash resources, cash flow from operations, the issuance of debt, and contributed capital.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

C. Financial reporting program structure

Operations program - This program is used to account for all gross revenues of water sales and other water revenues, except for connection fees. It is used to pay all operating costs and accounts for the property and equipment of the Authority. The long-term debt is also accounted for in the operations program.

Capacity program - This program is used to account for the water capacity fee revenues.

Expansion program - This program is used to account for the debt service payments of the Authority. It also includes the restricted investments, which are held by the 1993 Water Revenue Refunding Bonds Trustee.

D. Assets, liabilities, deferred outflows, and equity

Cash and investments

Cash includes amounts in demand deposits as well as highly liquid short-term investments. The Authority's cash and cash equivalents are considered to be cash pooled with the City of Suisun City, with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

The Authority pools its unrestricted cash with the City of Suisun City. Interest income is allocated to the Authority based on its proportionate share of the pool. The Authority's restricted cash, cash equivalents, and investments are held by the Bond Trustee.

Receivables and payables

Trade accounts receivable (including unbilled receivables) are carried at their net realizable values.

Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted assets

Certain investments have been placed with the Bond Trustee according to the requirements of Indenture of Trust of the 1993 Water Revenue Refunding Bonds. Accordingly, such investments have been classified as restricted in the accompanying financial statements.

Capital assets

Capital assets, including costs of additions to treatment plants and major replacements of property, are capitalized and stated at cost or estimated historical cost if purchased or constructed. The Authority capitalizes all capital asset additions greater than \$5,000. Such capital costs include materials, direct labor, transportation, and such indirect costs as interest, engineering, supervision, and employee fringe benefits. Contributed property is recorded as fair value as of the date of donation. Repairs, maintenance, and minor replacements of property are expensed.

Depreciation

Depreciation of all capital assets in service is charged as an expense against operations each year. Accumulated depreciation, the total amount of depreciation taken over the years, is reported on the statement of net position as a reduction in the gross value of the capital assets.

Depreciation of capital assets in service is calculated using the straight line method, dividing the cost of the asset by its expected useful life in years. The result is charged to expense each year

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

until the asset is fully depreciated. The Authority has assigned the following useful lives to capital assets:

<u>Class of capital asset</u>	<u>Estimated useful life</u>
Office equipment	3
Water facilities	40-50

Net position

Net position is measured on the full accrual basis and is the excess of all the Authority's assets and deferred outflows of resources over all its liabilities. Net position is classified into the following components:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted net position describes the portion of net position which is restricted as to use by the terms and conditions of agreement with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. It is the Authority's policy to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Comparative data

Comparative data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Authority's financial position and operations.

E. Estimates

The preparation of financial statements in conformity with governmental accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
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F. Classification of Revenues

Operating revenues consist primarily of water service charges to customers, which are billed and collected on behalf of the Authority by the City of Suisun City (“City”) on a bi-monthly basis. The City remits those charges to the Authority and handles all delinquencies, retaining its portion as administrative costs pursuant to the JPA agreement.

Nonoperating revenues consist of investment income and special charges that can be used for either operating or capital purposes.

Capital contributions consist of contributed capital assets, connection, and capacity fees that are legally restricted for capital expenditures by State law or by Board actions that established those charges. Connection and capacity fees represent a one-time contribution of resources to the Authority, imposed on contractors and developers for the purpose of financing capital improvements.

G. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure, other than the issuance of new water revenue bonds disclosed in Note 7 on page 25.

H. Implemented New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date.

The statement requires that acquisition value (an entry price) be used to measure the following assets:

- a. donated capital assets;
- b. donated works of art, historical treasures, and other similar assets; and
- c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

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GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 did not have a significant impact on the Authority's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The purpose of GASB Statement No. 76 (GASB 76) is to identify the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)."

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

The implementation of GASB 76 did not have a significant impact on the Authority's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants

GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification,

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
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and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The implementation of GASB 79 did not have a significant impact on the Authority's financial statements and did not result in any prior period restatements or adjustments.

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

As of June 30, 2016, the Authority had cash of \$8,076,439 pooled with the City of Suisun City and \$873,531 held in money market mutual funds by the Bond Trustee.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Authority has the following recurring fair value measurements as of June 30, 2016:

- The cash the Authority has pooled with the City of Suisun City of \$8,076,439; valued using Level 2 inputs.

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure the Authority's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Authority's deposits. California law also allows financial institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of at least 150% of the Authority's total deposits.

Investment Policy

The Authority's investment policy follows the California Government Code which authorizes the Authority to invest in its own bonds, certain time deposits, obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, bankers' acceptances with maturities not to exceed 270 days, and medium-term notes issued by corporations operating within the U.S., commercial paper rated P-1 or higher by Moody's or A-1 by Standard & Poor's commercial paper record, repurchase agreements of obligations of the U.S. Government or its agencies for a term of one year or less and the Local Agency Investment Fund.

The funds pooled with the City are invested in accordance with the City's investment policy established pursuant to state law. All monies not required for immediate expenditure are deposited or invested to earn maximum yield consistent with safety and liquidity. The Authority's restricted funds, which are held by the Bond Trustee, are invested according to the Indenture of Trust which authorizes investments in additional types of instruments other than those permitted by the City of Suisun City investment policy, but that are still pursuant to state law.

Cash with Fiscal Agent

The Authority also had cash with fiscal agent totaling \$873,531. Cash with fiscal agent represents deposits in trust accounts, and in the Authority's name, from revenue bond proceeds remaining after issuance, capital facility surcharges collected to repay the revenue bonds, and minimum reserve requirements established by bond covenants.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates.

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call date:

Investment Type	12 Months or Less
Held by Bond Trustee	
First American Treasury Obligation	
Money Market Mutual Funds	\$ 873,531
Cash and investment pooled with City of Suisun City	8,076,439
Total Cash and Investments	\$ 8,949,970

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Money Market Mutual Funds were rated AAA by Standard and Poor's investment rating system.

C. Custodial Credit Risk

Custodial credit risk for deposit 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 nor will it 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 to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority's deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The State of California has no additional requirements for custodial credit risk, nor does the Authority.

The Authority's cash and investments are pooled with the City of Suisun City. The City's cash and investment pool is under the oversight of the City and is not rated. For additional information regarding the pooled cash and investments with respect to the risks identified above, please refer to the City of Suisun City Annual Comprehensive Financial Report (CAFR).

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

D. Concentration of Credit Risk

The Authority's cash and investment funds are pooled with the City of Suisun City. The City of Suisun City's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code. However, the City is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by the City in securities of issuers other than U. S. Treasury securities, mutual funds, and external investment pools. At June 30, 2016, there is no investment representing five percent or more from any issuer.

NOTE 3 - CAPITAL ASSETS

The Authority's plant and facilities capital assets consisted of the following as of June 30, 2016:

	June 30, 2015	Additions	Transfers and Adjustments	June 30, 2016
Capital assets not being depreciated:				
Land and improvements	\$ 87,324	\$ -	\$ -	\$ 87,324
Construction in progress	788,220	2,961,280	(689,841)	3,059,659
Total non-depreciable capital assets	<u>875,544</u>	<u>2,961,280</u>	<u>(689,841)</u>	<u>3,146,983</u>
Depreciable capital assets:				
Water facilities	35,616,272	-	684,389	36,300,661
Office equipment	56,447	-	-	56,447
Total depreciable capital assets	<u>35,672,719</u>	<u>-</u>	<u>684,389</u>	<u>36,357,108</u>
Less - accumulated depreciation	<u>21,591,483</u>	<u>834,659</u>	<u>-</u>	<u>22,426,142</u>
Depreciable capital assets, net	<u>14,081,236</u>	<u>(834,659)</u>	<u>-</u>	<u>13,246,577</u>
Total capital assets, net	<u>\$ 14,956,780</u>	<u>\$ 2,126,621</u>	<u>\$ (5,452)</u>	<u>\$ 17,077,949</u>

Construction in progress of \$3,059,659 mainly consists of \$2,304,551 for Cement Hill Water Treatment Plant Electrical and Control Systems Upgrade, \$669,032 for the 2 MG Tank at Cement Hill Water Treatment Plant project and \$86,076 for Walters Road-Peterson-Lawler Ranch Pipeline and other projects. During the fiscal year ended June 30, 2016, the Authority spent \$2,663,713 in replacement and rehabilitation projects including update of equipment and \$292,115 in capacity enhancement projects.

Depreciation expense for the year ended June 30, 2016 was \$834,659.

NOTE 4 - LONG TERM DEBT

The following is a summary of long-term debt for the year:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Bonds Payable					
1993 Water Revenue Refunding Bonds	<u>\$ 1,310,000</u>	<u>\$ -</u>	<u>\$(670,000)</u>	<u>\$ 640,000</u>	<u>\$ 640,000</u>

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

The 1993 Water Revenue Refunding Bonds bear interest at rates from 2.75 percent to 5.55 percent. Interest is payable each May 1 and November 1 and principal matures each May 1 through 2017. The deferred charges on refunding, reported as deferred outflows of resources, are being amortized over the term of the bonds. As of June 30, 2016, the unamortized deferred charges balance was \$55,711. The Authority's "net revenues", as defined in the official bond statement, are pledged to secure payment of the principal and interest on the bonds.

Future debt service on the bonds at June 30, 2016 is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 640,000	\$ 35,520	\$ 675,520

Extraordinary redemption

The Bonds are subject to redemption prior to their respective maturities at the option of the Authority, on any interest payment date, from monies required to be deposited into the redemption fund from the proceeds of an insurance or condemnation award at a price equal to 100 percent of the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

Optional redemption

The 1993 Bonds maturing on or after May 1, 2004 but before May 1, 2017 are subject to redemption prior to their respective stated maturities, from monies deposited into the redemption fund for such purpose or any other source of available funds at the option of the Authority. This redemption may occur in whole on any date, or in part among such principal amounts as are selected by the Authority, and by lot within a maturity on any interest payment date, on or after May 1, 2004, at the following redemption prices, together with accrued interest to the date fixed for redemption:

Redemption period (dates inclusive)	Redemption
May 1, 2005 and thereafter	100%

Mandatory redemption

The 1993 bonds maturing on May 1, 2017 are also subject to redemption prior to their stated maturities in part, by lot, from mandatory sinking account payments deposited into the principal account on any May 1 on or after May 1, 2010, at a redemption price equal to 100 percent of the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium. Mandatory sinking account payments are as follows:

Sinking Account Redemption Date (May 1)	Principal Amount to be Redeemed
2017 (Maturity)	\$ 640,000

Suisun/Solano Water Authority
Notes to the Basic Financial Statements
June 30, 2016

NOTE 5 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; and natural disasters. The Authority participates in the Association of California Water Agencies Joint Powers Authority (“JPA”). The purpose of the JPA is to spread the adverse effects of losses among the member agencies and to purchase excess insurance as a group, thereby reducing expenses. General liability coverage for the Authority is limited to \$2,000,000 per occurrence and in aggregate. The Authority contributes its pro rata share of anticipated losses to pools administered by the JPA. The liability coverage has no deductible. The JPA is self-insured for the first \$1,000,000 and retains excess insurance coverage thereafter. There were no settlements that exceeded coverage for each of the past three years.

Audited financial statements of the JPA may be obtained from 5620 Birdcage Street, Suite #200, Citrus Heights, CA 95610.

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES

The Authority is contingently liable in connection with claims and contracts arising in the normal course of its activities. Authority’s management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the Authority.

NOTE 7 - ISSUANCE OF WATER REVENUE BONDS

On August 8, 2016 the Authority through Resolution No. 16-09 authorized the issuance and sale of water revenue bonds to fund costs of acquiring and constructing water system improvement projects. This action is part of the water rate study conducted in 2014.

The Authority has identified roughly \$14.9 million in planned capital improvements at the time of the study through Fiscal Year 2019/20, and has significant capital expenditures planned for the next 30 years. Without the immediate increases to rates that are currently in effect more significant increases will be needed in later years to meet the capital improvement plan.

In addition, the analysis has assumed that the Authority will pursue revenue bond financing to fund most of the planned capital improvement costs.

On October 4, 2016, \$8,240,000 water revenue bonds have been issued payable in 30 years.

SUPPLEMENTAL INFORMATION

SUISUN/SOLANO WATER AUTHORITY
(A JOINT POWERS AUTHORITY)
COMBINING PROGRAM STATEMENT OF NET POSITION
JUNE 30, 2016
(With Comparative Totals as of June 30, 2015)

	Operations	Capacity	Expansion	2016	2015
ASSETS					
Current assets:					
Cash and investments	\$ 1,709,735	\$ 6,366,704	\$ -	\$ 8,076,439	\$ 9,755,400
Accounts receivable	412,246	-	-	412,246	301,483
Unbilled receivables	528,600	-	-	528,600	464,281
Prepaid expenses	6,405	-	-	6,405	7,334
Total current assets	<u>2,656,986</u>	<u>6,366,704</u>	<u>-</u>	<u>9,023,690</u>	<u>10,528,498</u>
Capital assets:					
Land and improvements	87,324	-	-	87,324	87,324
Construction in progress	3,059,659	-	-	3,059,659	788,220
Water facilities	36,300,661	-	-	36,300,661	35,616,272
Office equipment	56,447	-	-	56,447	56,447
Accumulated depreciation	(22,426,142)	-	-	(22,426,142)	(21,591,483)
Total capital assets, net	<u>17,077,949</u>	<u>-</u>	<u>-</u>	<u>17,077,949</u>	<u>14,956,780</u>
Restricted assets:					
Investments	-	-	873,531	873,531	877,417
Total restricted assets	<u>-</u>	<u>-</u>	<u>873,531</u>	<u>873,531</u>	<u>877,417</u>
Total assets	<u>\$ 19,734,935</u>	<u>\$ 6,366,704</u>	<u>\$ 873,531</u>	<u>\$ 26,975,170</u>	<u>\$ 26,362,695</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Refunding	<u>\$ 55,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,711</u>	<u>\$ 111,419</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 873,678	\$ 38,338	\$ -	\$ 912,016	\$ 205,915
Interest payable	-	-	5,920	5,920	12,117
Accrued liabilities	22,620	-	-	22,620	18,504
Deposits payable	75,390	-	-	75,390	67,674
Current portion of bonds payable	640,000	-	-	640,000	670,000
Total current liabilities	<u>1,611,688</u>	<u>38,338</u>	<u>5,920</u>	<u>1,655,946</u>	<u>974,210</u>
Noncurrent liabilities:					
Water Revenue Refunding Bonds, net	-	-	-	-	640,000
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>640,000</u>
Total liabilities	<u>\$ 1,611,688</u>	<u>\$ 38,338</u>	<u>\$ 5,920</u>	<u>\$ 1,655,946</u>	<u>\$ 1,614,210</u>
NET POSITION					
Net investment in capital assets	\$ 16,493,660	\$ -	\$ -	\$ 16,493,660	\$ 13,758,199
Restricted	-	6,328,366	867,611	7,195,977	7,041,540
Unrestricted	1,685,298	-	-	1,685,298	4,060,165
Total net position	<u>\$ 18,178,958</u>	<u>\$ 6,328,366</u>	<u>\$ 867,611</u>	<u>\$ 25,374,935</u>	<u>\$ 24,859,904</u>

SUISUN/SOLANO WATER AUTHORITY
(A JOINT POWERS AUTHORITY)
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

	Operations	Capacity	Expansion	2016	2015
Operating revenues:					
Water sales	\$ 4,650,307	\$ -	\$ -	\$ 4,650,307	\$ 3,865,648
Other water revenues	408,916	-	-	408,916	345,027
Total operating revenues	<u>5,059,223</u>	<u>-</u>	<u>-</u>	<u>5,059,223</u>	<u>4,210,675</u>
Operating expenses:					
Wells, tanks and transmission lines	1,042,330	-	-	1,042,330	1,279,498
General operations and maintenance	2,196,139	-	3,850	2,199,989	1,692,395
Billing and collection	822,152	-	-	822,152	779,403
Depreciation and amortization	834,659	-	-	834,659	833,149
Total operating expenses	<u>4,895,280</u>	<u>-</u>	<u>3,850</u>	<u>4,899,130</u>	<u>4,584,445</u>
Operating income (loss)	<u>163,943</u>	<u>-</u>	<u>(3,850)</u>	<u>160,093</u>	<u>(373,770)</u>
Nonoperating revenues (expenses):					
Interest income	27,333	80,186	5,582	113,101	70,424
Interest expense	(55,709)	-	(66,509)	(122,218)	(157,551)
Net nonoperating revenues (expenses)	<u>(28,376)</u>	<u>80,186</u>	<u>(60,927)</u>	<u>(9,117)</u>	<u>(87,127)</u>
Income before capital contributions	135,567	80,186	(64,777)	150,976	(460,897)
Capital contributions - water capacity fees	<u>-</u>	<u>364,055</u>	<u>-</u>	<u>364,055</u>	<u>19,290</u>
Income (loss) before operating transfers	135,567	444,241	(64,777)	515,031	(441,607)
Transfers in	3,772,206	-	737,088	4,509,294	2,158,441
Transfers out	<u>(3,547,179)</u>	<u>(292,115)</u>	<u>(670,000)</u>	<u>(4,509,294)</u>	<u>(2,158,441)</u>
Change in net position	<u>360,594</u>	<u>152,126</u>	<u>2,311</u>	<u>515,031</u>	<u>(441,607)</u>
Net position at beginning of fiscal year	<u>17,818,364</u>	<u>6,176,240</u>	<u>865,300</u>	<u>24,859,904</u>	<u>25,301,511</u>
Net position at end of fiscal year	<u>\$ 18,178,958</u>	<u>\$ 6,328,366</u>	<u>\$ 867,611</u>	<u>\$ 25,374,935</u>	<u>\$ 24,859,904</u>

OTHER INDEPENDENT AUDITOR'S REPORTS



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

To the Board of Directors
of the Suisun/Solano Water Authority
City of Suisun City, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Suisun/Solano Water Authority (the "Authority") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 6, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of



laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

January 6, 2017
San Jose, California