



**Soquel Creek Water District**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2012 and 2011**



**Charles Z. Fedak & Company**

Certified Public Accountants

An Accountancy Corporation



**Soquel Creek Water District  
Board of Directors as of June 30, 2012**

<b>Name</b>	<b>Title</b>	<b>Elected/ Appointed</b>	<b>Current Term</b>
Dr. Thomas R. LaHue	President	Elected	12/08-12/12
Bruce Daniels	Vice President	Elected	12/08-12/12
Dr. Don Hoernschemeyer	Director	Elected	12/10-12/14
Dr. Bruce Jaffe	Director	Elected	12/10-12/14
Daniel F. Kriege	Director	Elected	12/10-12/14

**Soquel Creek Water District  
Laura D. Brown, General Manager  
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Soquel, California 95073-2549  
(831) 475-8500 – [www.soquelcreekwater.org](http://www.soquelcreekwater.org)**

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# **Financial Section**





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# Charles Z. Fedak & Company

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An Accountancy Corporation

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## Independent Auditor's Report

Board of Directors  
Soquel Creek Water District  
Soquel, California

We have audited the accompanying financial statements of the Soquel Creek Water District (District) as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The comparative financial information as of June 30, 2011 was audited by other auditors whose report dated January 12, 2012, expressed an unqualified opinion on those basic financial statements.

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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Soquel Creek Water District as of June 30, 2012, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 29.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the required supplementary information on page 21 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.

## Independent Auditor's Report, continued

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.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPA's – An Accountancy Corporation**  
Cypress, California  
October 31, 2012

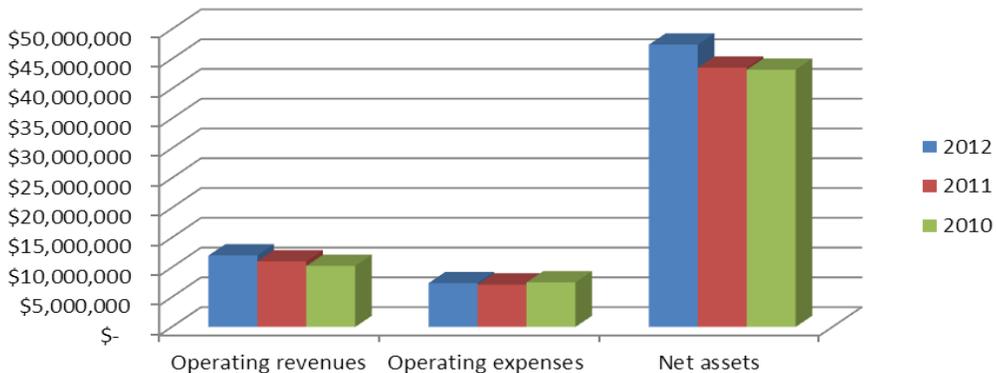
**Soquel Creek Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Soquel Creek Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net assets increased 8.87%, or \$3,861,566, to \$47,400,328 in fiscal year 2012 as a result of operations.
- The District's net assets increased 0.81%, or \$350,220, to \$43,188,542 in fiscal year 2011 as a result of operations.
- In 2012, the District's operating revenues increased 8.95%, or \$985,588, primarily due to a \$634,269 increase in water consumption sales and a \$368,227 increase in water service charges.
- In 2011, the District's operating revenues increased 7.56%, or \$774,004, primarily due to a \$420,343 increase in water consumption sales, a \$231,563 increase in water service charges and an \$110,394 increase in the conservation-based water demand offset credit paid by developers.
- In 2012, the District's operating expenses increased 3.61%, or \$256,438, primarily due to a \$488,545 increase in transmission and distribution expenses and an \$187,788 increase in general and administrative expenses, which were offset by a \$330,600 decrease in source of supply.
- In 2011, the District's operating expenses decreased 4.97%, or \$371,353, primarily due to a \$360,257 decrease in transmission and distribution expenses and a \$621,106 decrease in general and administrative expenses, which were offset by a \$505,751 increase in source of supply.

**Changes in Operating Revenues, Expenses and Net Assets**



**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

**Soquel Creek Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Required Financial Statements, continued**

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 28.

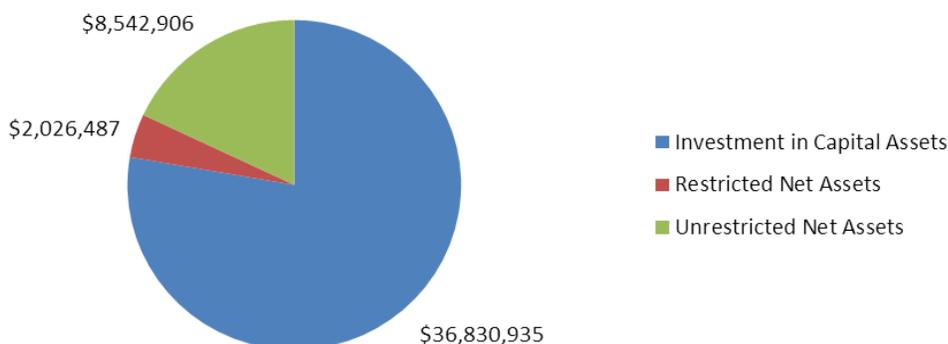
**Statement of Net Assets**

<b>Condensed Statements of Net Assets</b>					
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 21,023,925	23,638,721	(2,614,796)	7,042,660	16,596,061
Non-current assets	766,870	857,639	(90,769)	507,161	350,478
Capital assets, net	48,434,877	43,129,359	5,305,518	42,505,914	623,445
<b>Total assets</b>	<u>70,225,672</u>	<u>67,625,719</u>	<u>2,599,953</u>	<u>50,055,735</u>	<u>17,569,984</u>
<b>Liabilities:</b>					
Current liabilities	2,418,082	2,141,973	276,109	1,259,755	882,218
Non-current liabilities	20,407,262	21,944,984	(1,537,722)	5,607,438	16,337,546
<b>Total liabilities</b>	<u>22,825,344</u>	<u>24,086,957</u>	<u>(1,261,613)</u>	<u>6,867,193</u>	<u>17,219,764</u>
<b>Net assets:</b>					
Investment in capital assets	36,830,935	36,222,632	608,303	37,435,742	(1,213,110)
Restricted	2,026,487	2,647,590	(621,103)	864,018	1,783,572
Unrestricted	8,542,906	4,668,540	3,874,366	4,888,782	(220,242)
<b>Total net assets</b>	<u>47,400,328</u>	<u>43,538,762</u>	<u>3,861,566</u>	<u>43,188,542</u>	<u>350,220</u>
<b>Total liabilities and net assets</b>	<u>\$ 70,225,672</u>	<u>67,625,719</u>	<u>2,599,953</u>	<u>50,055,735</u>	<u>17,569,984</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$47,400,328 and \$43,538,762 as of June 30, 2012 and 2011, respectively.

**Soquel Creek Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Net Asset Allocation as of June 30, 2012**



By far the largest portion of the District's net assets (78% as of June 30, 2012, and 83% as of June 30, 2011) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2012 and 2011, the District showed a positive balance in its unrestricted net assets of \$8,542,906 and \$4,668,540, respectively, which may be utilized in future years. See note 8 of the financial statements for further information.

**Statement of Revenues, Expenses and Changes in Net Assets**

Condensed Statements of Revenues, Expenses and Changes in Net Assets					
	2012	2011	Change	2010	Change
<b>Revenues:</b>					
Operating revenues	\$ 12,000,019	11,014,431	985,588	10,240,427	774,004
Non-operating revenues	116,277	69,124	47,153	56,006	13,118
<b>Total revenues</b>	<b>12,116,296</b>	<b>11,083,555</b>	<b>1,032,741</b>	<b>10,296,433</b>	<b>787,122</b>
<b>Expenses:</b>					
Operating expenses	7,360,454	7,104,016	256,438	7,475,369	(371,353)
Depreciation and amortization	1,957,121	1,962,041	(4,920)	1,892,844	69,197
Non-operating expenses	1,018,098	2,117,862	(1,099,764)	317,599	1,800,263
<b>Total expenses</b>	<b>10,335,673</b>	<b>11,183,919</b>	<b>(848,246)</b>	<b>9,685,812</b>	<b>1,498,107</b>
<b>Net income before capital</b>	<b>1,780,623</b>	<b>(100,364)</b>	<b>1,880,987</b>	<b>610,621</b>	<b>(710,985)</b>
Capital contributions	2,080,943	450,584	1,630,359	481,003	(30,419)
<b>Change in net assets</b>	<b>3,861,566</b>	<b>350,220</b>	<b>3,511,346</b>	<b>1,091,624</b>	<b>(741,404)</b>
<b>Net assets, beginning of year</b>	<b>43,538,762</b>	<b>43,188,542</b>	<b>350,220</b>	<b>42,096,918</b>	<b>1,091,624</b>
<b>Net assets, end of year</b>	<b>\$ 47,400,328</b>	<b>43,538,762</b>	<b>3,861,566</b>	<b>43,188,542</b>	<b>350,220</b>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, the District's net assets increased by \$3,861,566 and \$350,220 for the fiscal years ended June 30, 2012 and 2011, respectively.

**Soquel Creek Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

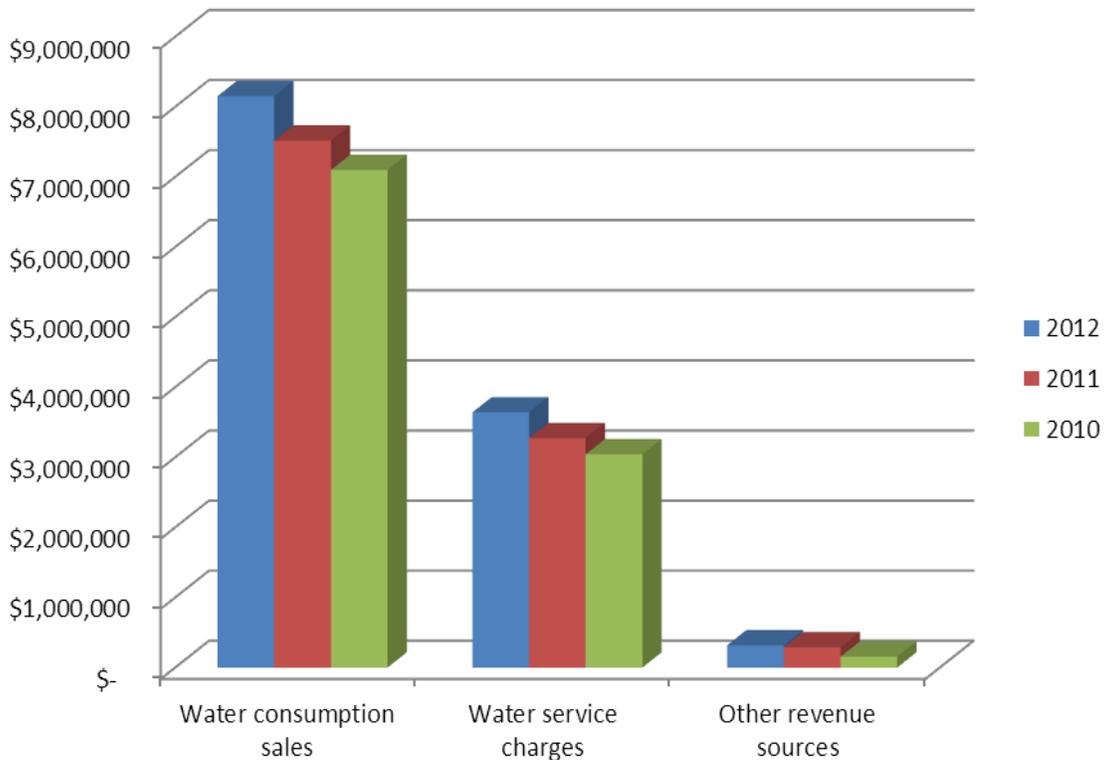
**Total Revenues**

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 8,153,877	7,519,608	634,269	7,099,265	420,343
Water service charges	3,642,105	3,273,878	368,227	3,042,315	231,563
Water conservation – credit	149,172	157,770	(8,598)	47,376	110,394
Other charges for services	54,865	63,175	(8,310)	51,471	11,704
<b>Total operating revenues</b>	<u>12,000,019</u>	<u>11,014,431</u>	<u>985,588</u>	<u>10,240,427</u>	<u>774,004</u>
<b>Non-operating revenue:</b>					
Interest earnings	99,477	52,324	47,153	39,206	13,118
Rental revenue	16,800	16,800	-	16,800	-
<b>Total non-operating revs.</b>	<u>116,277</u>	<u>69,124</u>	<u>47,153</u>	<u>56,006</u>	<u>13,118</u>
<b>Total revenues</b>	<u>\$ 12,116,296</u>	<u>11,083,555</u>	<u>1,032,741</u>	<u>10,296,433</u>	<u>787,122</u>

In 2012, the District's operating revenues increased 8.95%, or \$985,588, primarily due to a \$634,269 increase in water consumption sales and a \$368,227 increase in water service charges.

In 2011, the District's operating revenues increased 7.56%, or \$774,004, primarily due to a \$420,343 increase in water consumption sales, a \$231,563 increase in water service charges and a \$110,394 increase in the conservation-based water demand offset credit paid by developers.

**Changes in Revenue by Category**



**Soquel Creek Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

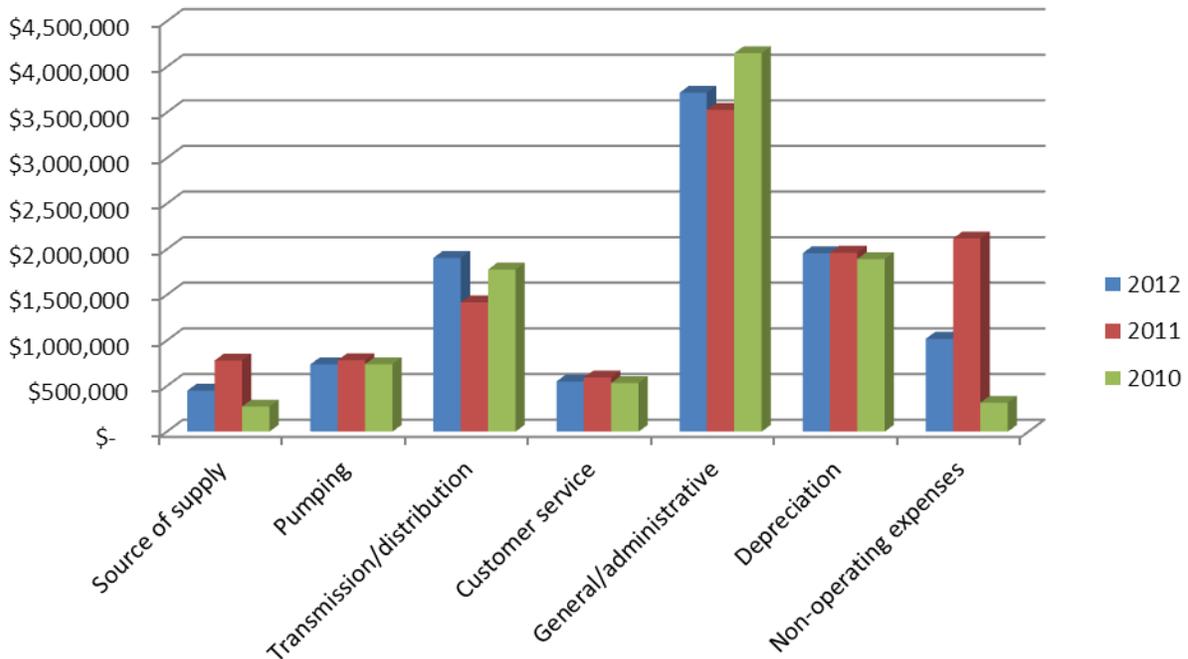
**Total Expenses**

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
<b>Operating expenses:</b>					
Source of supply	\$ 450,014	780,614	(330,600)	274,863	505,751
Pumping	737,635	783,275	(45,640)	739,099	44,176
Transmission and distribution	1,906,232	1,417,687	488,545	1,777,944	(360,257)
Customer service	550,135	593,790	(43,655)	533,707	60,083
General and administrative	3,716,438	3,528,650	187,788	4,149,756	(621,106)
<b>Total operating expenses</b>	<u>7,360,454</u>	<u>7,104,016</u>	<u>256,438</u>	<u>7,475,369</u>	<u>(371,353)</u>
<b>Depreciation expense</b>	<u>1,957,121</u>	<u>1,962,041</u>	<u>(4,920)</u>	<u>1,892,844</u>	<u>69,197</u>
<b>Non-operating expenses:</b>					
Interest expense	938,871	255,025	683,846	208,677	46,348
Amortization of debt items	76,675	66,131	10,544	65,172	959
Rental property expense	2,552	2,738	(186)	4,072	(1,334)
Loss on disposition of assets	-	66,748	(66,748)	39,678	27,070
CalPERS side-fund payoff	-	1,727,220	(1,727,220)	-	1,727,220
<b>Total non-operating exps.</b>	<u>1,018,098</u>	<u>2,117,862</u>	<u>(1,099,764)</u>	<u>317,599</u>	<u>1,800,263</u>
<b>Total expenses</b>	<u>\$ 10,335,673</u>	<u>11,183,919</u>	<u>(848,246)</u>	<u>9,685,812</u>	<u>1,498,107</u>

In 2012, the District's operating expenses increased 3.61%, or \$256,438, primarily due to a \$488,545 increase in transmission and distribution expenses and an \$187,788 increase in general and administrative expenses, which were offset by a \$330,600 decrease in source of supply.

In 2011, the District's operating expenses decreased 4.97%, or \$371,353, primarily due to a \$360,257 decrease in transmission and distribution expenses and a \$621,106 decrease in general and administrative expenses, which were offset by a \$505,751 increase in source of supply.

**Changes in Expenses by Category**



**Soquel Creek Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Capital Asset Administration**

Changes in capital assets amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 8,355,788	7,128,606	(2,190,931)	13,293,463
Depreciable assets	66,801,440	2,324,964	(79,100)	69,047,304
Accumulated depreciation	<u>(32,027,869)</u>	<u>(1,957,121)</u>	<u>79,100</u>	<u>(33,905,890)</u>
Total capital assets	<u>\$ 43,129,359</u>	<u>7,496,449</u>	<u>(2,190,931)</u>	<u>48,434,877</u>

Changes in capital assets amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 7,534,082	3,561,298	(2,739,592)	8,355,788
Depreciable assets	65,171,050	1,830,528	(200,138)	66,801,440
Accumulated depreciation	<u>(30,199,218)</u>	<u>(1,962,041)</u>	<u>133,390</u>	<u>(32,027,869)</u>
Total capital assets	<u>\$ 42,505,914</u>	<u>3,429,785</u>	<u>(2,806,340)</u>	<u>43,129,359</u>

At the end of fiscal year 2012 and 2011, the District's investment in capital assets amounted to \$48,434,877 and \$43,129,359 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles, construction-in-process, etc. See note 4 of the financial statements for further information.

**Debt Administration**

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>
Long-term debt:				
Bonds payable	\$ 5,033,986	3,617,646	(5,142,599)	3,509,033
Certificates-of-participation	<u>16,924,310</u>	<u>-</u>	<u>(5,022)</u>	<u>16,919,288</u>
Total long-term debt	<u>\$ 21,958,296</u>	<u>3,617,646</u>	<u>(5,147,621)</u>	<u>20,428,321</u>

Changes in long-term debt amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>
Long-term debt:				
Bonds payable	\$ 5,577,333	10,772	(554,119)	5,033,986
Certificates-of-participation	<u>-</u>	<u>16,924,729</u>	<u>(419)</u>	<u>16,924,310</u>
Total long-term debt	<u>\$ 5,577,333</u>	<u>16,935,501</u>	<u>(554,538)</u>	<u>21,958,296</u>

In 2012, the District refunded the 2004 Revenue Bonds with the 2012 Revenue Bonds to achieve a present value savings of \$370,216 on the refunding. See note 7 of the financial statements for further information.

**Soquel Creek Water District**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions which could have an immediate and significant impact on the District's current financial position, net assets or operating results based on past, present and future events. However, the District is actively searching for a water supply to supplement threatened groundwater resources. Any of the supply alternatives currently under consideration could impact the cost to supply water service to District customers and future financial planning by the District will incorporate the projected cost of a supplemental source of supply.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Financial & Business Services Manager at 5180 Soquel Drive, Soquel California, 95073 – (831) 475-8500.

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# **Basic Financial Statements**

**Soquel Creek Water District**  
**Statements of Net Assets**  
**June 30, 2012 and 2011**

<i>Assets</i>	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,564,218	4,632,024
Restricted – cash and cash equivalents (note 2)	11,097,505	17,813,071
Accrued interest receivable	5,933	4,785
Restricted – accrued interest receivable	8,903	11,349
Accounts receivable – water sales and services, net	712,607	618,461
Accounts receivable – other	10,401	27,063
Materials and supplies inventory	413,073	372,479
Prepaid expenses and other deposits	211,285	159,489
Total current assets	21,023,925	23,638,721
Non-current assets:		
Deferred charges, net (note 3)	766,870	857,639
Capital assets – not being depreciated (note 4)	13,293,463	8,355,788
Capital assets, net – being depreciated (note 4)	35,141,414	34,773,571
Total non-current assets	49,201,747	43,986,998
<b>Total assets</b>	\$ 70,225,672	67,625,719
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,211,169	1,134,278
Accrued wages and related payables	139,459	80,560
Deferred revenue and other deposits	151,535	167,964
Accrued interest payable	255,542	125,261
Long-term liabilities – due within one year:		
Compensated absences (note 5)	75,000	68,910
Bonds payable (note 7)	585,377	565,000
Total current liabilities	2,418,082	2,141,973
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	224,999	206,731
Other post-employment benefits payable (note 6)	339,319	344,957
Bonds payable (note 7)	2,923,656	4,468,986
Certificates-of-participation (note 7)	16,919,288	16,924,310
Total non-current liabilities	20,407,262	21,944,984
<b>Total liabilities</b>	22,825,344	24,086,957
Net assets: (note 8)		
Net investment in capital assets	36,830,935	36,222,632
Restricted – capital projects	820,100	375,400
Restricted – debt service	1,206,387	2,272,190
Unrestricted	8,542,906	4,668,540
<b>Total net assets</b>	47,400,328	43,538,762
<b>Total liabilities and net assets</b>	\$ 70,225,672	67,625,719

See accompanying notes to the basic financial statements

**Soquel Creek Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating revenues:</b>		
Water consumption sales	\$ 8,153,877	7,519,608
Water service charges	3,642,105	3,273,878
Water conservation – water demand offset credit	149,172	157,770
Other charges for services	54,865	63,175
<b>Total operating revenues</b>	<b>12,000,019</b>	<b>11,014,431</b>
<b>Operating expenses:</b>		
Source of supply	450,014	780,614
Pumping	737,635	783,275
Transmission and distribution	1,906,232	1,417,687
Customer service and meter reading	550,135	593,790
General and administrative	3,716,438	3,528,650
<b>Total operating expenses</b>	<b>7,360,454</b>	<b>7,104,016</b>
Operating income before depreciation	4,639,565	3,910,415
Depreciation and amortization	(1,957,121)	(1,962,041)
<b>Operating income</b>	<b>2,682,444</b>	<b>1,948,374</b>
<b>Non-operating revenue(expense)</b>		
Interest earnings	99,477	52,324
Rental revenue	16,800	16,800
Interest expense	(938,871)	(255,025)
Amortization of debt related items	(76,675)	(66,131)
Rental property expense	(2,552)	(2,738)
Loss on sale/disposition of capital assets	-	(66,748)
CalPERS side-fund payoff (note 9)	-	(1,727,220)
Total non-operating, net	(901,821)	(2,048,738)
<b>Net income(loss) before capital contributions</b>	<b>1,780,623</b>	<b>(100,364)</b>
<b>Capital contributions:</b>		
State capital grants	1,028,392	86,987
Capacity charges	444,700	201,600
Capital contributions	607,851	161,997
Total capital contributions	2,080,943	450,584
<b>Change in net assets</b>	<b>3,861,566</b>	<b>350,220</b>
<b>Net assets, beginning of year, as restated</b>	<b>43,538,762</b>	<b>43,188,542</b>
<b>Net assets, end of year</b>	<b>\$ 47,400,328</b>	<b>43,538,762</b>

See accompanying notes to the basic financial statements

**Soquel Creek Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for water sales and services	\$ 11,906,106	11,059,139
Cash paid to employees for salaries and wages	(2,625,978)	(2,485,369)
Cash paid to vendors and suppliers for materials and services	(4,672,356)	(5,860,877)
Net cash provided by operating activities	4,607,772	2,712,893
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(7,262,639)	(2,652,234)
Capital contributions	2,080,943	450,584
Proceeds from the issuance of debt	4,636,867	16,924,729
Cost of debt issuance	(63,385)	(410,373)
Reacquisition price of escrowed funds	(4,573,482)	-
Principal paid	(1,460,000)	(550,000)
Interest paid	(864,471)	(196,642)
Net cash provided(used) by capital and related financing activities	(7,506,167)	13,566,064
<b>Cash flows from investing activities:</b>		
Rental revenue	16,800	16,800
Rental property expense	(2,552)	(2,738)
Interest earnings	100,775	49,782
Net cash provided by investing activities	115,023	63,844
<b>Net increase(decrease) in cash and cash equivalents</b>	(2,783,372)	16,342,801
<b>Cash and cash equivalents, beginning of year</b>	22,445,095	6,102,294
<b>Cash and cash equivalents, end of year</b>	\$ 19,661,723	22,445,095
<b>Reconciliation of cash and cash equivalents to statement of financial position:</b>		
Cash and cash equivalents	\$ 8,564,218	4,632,024
Restricted assets – cash and cash equivalents	11,097,505	17,813,071
Total cash and investments	\$ 19,661,723	22,445,095

Continued on next page

See accompanying notes to the basic financial statements

**Soquel Creek Water District**  
**Statements of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
<b>Operating income</b>	\$ 2,682,444	1,948,374
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Deprecation	1,957,121	1,962,041
CalPERS side-fund payoff	-	(1,727,220)
<b>Changes in assets and liabilities:</b>		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(94,146)	(1,337)
Accounts receivable – other	16,662	-
Materials and supplies inventory	(40,594)	(56,935)
Prepaid expenses and other deposits	(51,796)	(55,364)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	76,891	523,405
Accrued wages and related payables	58,899	26,737
Deferred revenue and other deposits	(16,429)	46,045
Compensated absences	24,358	20,669
Other post-employment benefits payable	(5,638)	26,478
Total adjustments	1,925,328	764,519
Net cash provided by operating activities	\$ 4,607,772	2,712,893

See accompanying notes to the basic financial statements

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

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

The Soquel Creek Water District (District) was incorporated in 1961 under the name Soquel Creek County Water District. The District became known as the Soquel Creek Water District in 1983. In 1964, the District acquired the Monterey Bay Water Company and provides water resource management services within the mid-Santa Cruz County. The purpose of the District is to finance, construct, operate and maintain a water system to serve properties within the District's boundaries. The District's service area encompasses seven miles of shoreline and extends from one to three miles inland into the foothills of the Santa Cruz Mountains. The City of Capitola is the only incorporated area in the District. Unincorporated communities include Aptos, La Selva Beach, Opal Cliffs, Rio Del Mar, Seascapes, and Soquel. The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement 14, as amended by GASB Statement 39. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board or because the component unit will provide a financial benefit or impose a financial burden on the District.

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

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. 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 flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

**C. Financial Reporting**

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

**C. Financial Reporting, continued**

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

**D. Assets, Liabilities and Net Assets**

**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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

**2. Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**3. Investments**

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**4. Accounts Receivable and Allowance for Uncollectible Accounts**

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the direct write-off method to write-off those accounts.

**5. Materials and Supplies Inventory**

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

**6. Prepaid Expenses**

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

**7. Deferred Charges**

Debt issuance costs are accumulated as a prepaid asset and are amortized over the life of the debt service.

**8. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution system – 20 to 33 years
- Structures and improvements – 20 to 50 years
- Vehicles and equipment – 5 to 10 years

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

**D. Assets, Liabilities and Net Assets, continued**

**9. Customer Deposits**

The District does not require customers to routinely pay an advance deposit for utility services. Deposits are collected when the District cannot establish a customer's creditworthiness or when collection problems occur.

**10. Compensated Absences**

Accumulated unpaid employee vacation and sick benefits are recognized as a liability of the District. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Sick leave benefits are prorated based on the number of days accumulated.

**11. Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Investment in Capital Assets, Net of Related Debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets 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 Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *investment in capital assets, net of related debt*.

**12. Water Sales and Services**

Water sales are billed on a bi-monthly cyclical basis and recognize the respective revenues when they are earned.

**13. Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

**14. Reclassifications**

Certain reclassifications of prior year amounts have been made to adhere to the current year presentation of the basic financial statements.

**15. Budgetary Policies**

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(2) Cash and Investments**

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 8,564,218	4,632,024
Restricted – cash and cash equivalents	11,097,505	17,813,071
Total cash and investments	\$ 19,661,723	22,445,095

Cash and cash equivalents as of June 30 consist of the following:

	<b>2012</b>	<b>2011</b>
Cash on hand	\$ 600	600
Deposits with financial institutions	1,913,278	909,902
Local Agency Investment Fund (LAIF)	7,470,440	4,084,673
Held with bond trustee:		
Deposits in money market funds – reserve fund	1,461,929	1,661,534
Deposits in money market funds – project fund	7,704	220
Guaranteed investment contract	-	748,165
Local Agency Investment Fund (LAIF) – project fund	8,807,772	15,040,000
Total cash and investments	\$ 19,661,723	22,445,094

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

The table below identifies the investment types that are authorized for the District by the California Government Code as follows:

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage Of Portfolio *</b>	<b>Maximum Investment in One Issuer</b>
U.S. Treasury Notes	5 years	100%	None
Federal Agency Obligations	5 years	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None

***Investments Authorized by Debt Agreements***

Investments of debt proceeds held by bond trustees are governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees as follows:

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Percentage Of Portfolio</b>	<b>Investment in One Issuer</b>
U.S. Treasury Obligations	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Guaranteed Investment Contracts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

***Investment in State Investment Pool***

The District 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 the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

***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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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 Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments 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).

***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 changes in market interest rates.

***Credit Risk***

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 the assignment of a rating by a nationally recognized statistical rating organization.

***Concentration of Credit Risk***

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2012 and 2011, respectively.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(3) Deferred Charges**

The balance consists of the following debt issuance costs, net:

	<b>2012</b>	<b>2011</b>
2004 Refunding bonds	\$ -	448,643
2012 Refunding bonds	374,399	-
2011 Certificates-of-participation	392,471	408,996
Total	\$ 766,870	857,639

**(4) Capital Assets**

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems in the following schedules:

Changes in capital assets for the year were as follows:

	<b>Balance 2011</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2012</b>
Non-depreciable assets:				
Land	\$ 2,471,197	-	-	2,471,197
Construction-in-process	5,884,591	7,128,606	(2,190,931)	10,822,266
Total non-depreciable assets	8,355,788	7,128,606	(2,190,931)	13,293,463
Depreciable assets:				
Transmission and distribution system	61,996,119	2,148,367	(7,925)	64,136,561
Structures and improvements	1,525,532	8,275	-	1,533,807
Vehicles and equipment	3,279,789	168,322	(71,175)	3,376,936
Total depreciable assets	66,801,440	2,324,964	(79,100)	69,047,304
Accumulated depreciation:				
Transmission and distribution system	(28,996,617)	(1,751,096)	7,925	(30,739,788)
Structures and improvements	(721,855)	(33,502)	-	(755,357)
Vehicles and equipment	(2,309,397)	(172,523)	71,175	(2,410,745)
Total accumulated depreciation	(32,027,869)	(1,957,121)	79,100	(33,905,890)
Total depreciable assets, net	34,773,571	367,843	-	35,141,414
<b>Total capital assets, net</b>	\$ 43,129,359	7,496,449	(2,190,931)	48,434,877

**(5) Compensated Absences**

The change to compensated absences balances at June 30 were as follows:

<b>Balance 2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 2012</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
\$ 275,641	127,564	(103,206)	299,999	75,000	224,999
\$ 275,641	127,564	(103,206)	299,999	75,000	224,999
<b>Balance 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 2011</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
\$ 254,972	124,666	(103,997)	275,641	68,910	206,731
\$ 254,972	124,666	(103,997)	275,641	68,910	206,731

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(6) Other Post-Employment Benefits Payable**

During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

***Plan Description – Benefits***

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District’s CalPERS medical with the general exception that upon reaching age 65 and becoming eligible for Medicare, the retiree must join one of the Medicare supplement coverage plans offered by CalPERS. The contribution requirements of Plan members and the District are established and may be amended by the District’s Board of Directors.

***Funding Policy***

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 17.4% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

***Annual Cost***

The balance at June 30 consists of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 433,731	403,059	481,103
Interest on net OPEB obligation	26,115	24,682	-
Adjustment to annual required contribution	<u>(29,957)</u>	<u>-</u>	<u>-</u>
Total annual OPEB expense	429,889	427,741	481,103
Change in net OPEB payable obligation:			
Contributions made	<u>(435,527)</u>	<u>(401,263)</u>	<u>(162,624)</u>
Total change in net OPEB payable obligation	(5,638)	26,478	318,479
OPEB payable - beginning of year	<u>344,957</u>	<u>318,479</u>	<u>-</u>
OPEB payable - end of year	<u>\$ 339,319</u>	<u>344,957</u>	<u>318,479</u>

For the fiscal year ended June 30, 2012, the District’s ARC cost was \$429,889. The District’s net OPEB payable obligation amounted to \$339,319 for the fiscal year ended June 30, 2012. The District contributed \$435,527 in contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2012.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(6) Other Post-Employment Benefits Payable, continued**

***Funding Status and Funding Progress***

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012 and the two preceding fiscal years were as follows:

*Three-Year History of Net OPEB Obligation*

Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed
2012	\$ 429,889	435,527	101.3%
2011	427,741	401,263	93.8%
2010	481,103	162,624	33.8%

*Required Supplemental Information - Schedule of Funding Progress*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Covered Payroll (c)	Funded Ratio (a/b)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	184,350	3,876,950	3,692,600	2,485,369	4.76%	148.57%
7/1/2009	-	5,125,201	5,125,201	2,370,000	0.00%	216.25%

The most recent valuation (dated June 30, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,876,950. Plan assets amounted to \$184,350 as of June 30, 2011. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year ended June 30, 2011, was \$2,485,369. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 148.57%.

***Actuarial Methods and Assumptions***

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	6/30/2011
Actuarial cost method	Projected unit credit cost method
Amortization method	Level dollar method
Remaining amortization period	28 years as of the valuation date
Asset valuation method	Market value basis
Actuarial assumptions:	
Investment rate of return	7.61%
Projected healthcare cost increase	7.5% in 2013 reducing to 5.0% in 2018
Inflation - discount rate	3.00%
Individual salary growth	3.25% per annum, aggregate

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(7) Long-Term Debt**

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Adjustments</u>	<u>Balance 2012</u>
Long-term debt:				
2004 Revenue refunding bond	\$ 5,085,000	-	(5,085,000)	-
2012 Revenue refunding bond	-	3,625,000	-	3,625,000
2004 Bond premium	31,568	-	(31,568)	-
2012 Bond discount	-	(18,125)	-	(18,125)
2012 Deferred loss on refunding	(82,582)	10,771	(26,031)	(97,842)
Total bond payable	<u>5,033,986</u>	<u>3,617,646</u>	<u>(5,142,599)</u>	<u>3,509,033</u>
2011 Certificates-of participation	16,800,000	-	-	16,800,000
2011 COP's premium	124,310	-	(5,022)	119,288
Total certificate-of-participation	<u>16,924,310</u>	<u>-</u>	<u>(5,022)</u>	<u>16,919,288</u>
Total long-term debt	<u>\$ 21,958,296</u>	<u>3,617,646</u>	<u>(5,147,621)</u>	<u>20,428,321</u>
Less current portion	<u>(565,000)</u>			<u>(585,377)</u>
Non-current portion	<u>\$ 21,393,296</u>			<u>19,842,944</u>
	<u>Balance 2010</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Adjustments</u>	<u>Balance 2011</u>
Long-term debt:				
2004 Revenue refunding bond	\$ 5,635,000	-	(550,000)	5,085,000
2004 Bond premium	35,687	-	(4,119)	31,568
2004 Deferred loss on refunding	(93,354)	10,772	-	(82,582)
Total bond payable	<u>5,577,333</u>	<u>10,772</u>	<u>(554,119)</u>	<u>5,033,986</u>
2011 Certificates-of participation	-	16,800,000	-	16,800,000
2011 COP's premium	-	124,729	(419)	124,310
Total certificate-of-participation	<u>-</u>	<u>16,924,729</u>	<u>(419)</u>	<u>16,924,310</u>
Total long-term debt	<u>\$ 5,577,333</u>	<u>16,935,501</u>	<u>(554,538)</u>	<u>21,958,296</u>
Less current portion	<u>(550,000)</u>			<u>(565,000)</u>
Non-current portion	<u>\$ 5,027,333</u>			<u>21,393,296</u>

***2004 Revenue Refunding Bond***

In March 2004, the District issued \$9,035,000 in 2004 Revenue Refunding Bonds to defease the District's 1994 Revenue Bonds. The bonds are secured by the District's revenues. The bonds bear interest at rates from 2.00% to 4.00%. Interest is payable on September 1 and March 1, with principal payable on March 1 of each fiscal year. Final maturity on the bonds is March 1, 2019.

In June 2012, the District issued \$3,625,000 in 2012 Revenue Refunding Bonds to defease the District's 2004 Revenue Refunding Bonds. The District used restricted cash reserves and the refunding issuance to achieve a gross savings of \$479,727 and a present value savings of \$370,216 on the refunding. As of June 28, 2012, the 2004 Revenue Refunding Bonds were considered defeased and the liability removed from the District's financial statements.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

***2012 Revenue Refunding Bond***

In June 2012, the District authorized and issued \$3,625,000 in 2012 Revenue Refunding Bonds at an interest rate of 1.25% to defease the District's 2004 Revenue Refunding Bonds. The bonds mature through fiscal year 2018 as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 585,377	29,131	614,508
2014	592,672	36,668	629,340
2015	600,208	29,132	629,340
2016	607,785	21,555	629,340
2017	615,566	13,774	629,340
2018	623,392	5,948	629,340
Total	\$ 3,625,000	136,208	3,761,208
Less current:	(585,377)		
Long-term	\$ 3,039,623		

***2011 Certificates-of-Participation***

In June 2011, the District authorized the issuance of \$16,800,000 in 2011 Certificates-of-Participation for the purpose of paying the costs of acquiring and constructing various improvements to the District's water transmission and distribution system. The certificates-of-participation bear interest at rates from 4.00% to 5.00%. Interest is payable on September 1<sup>st</sup> and March 1<sup>st</sup>, with principal due on March 1<sup>st</sup> starting in fiscal year 2020. Final maturity of the certificates-of-participation is in March 2036 as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	766,625	766,625
2014	-	766,625	766,625
2015	-	766,625	766,625
2016	-	766,625	766,625
2017	-	766,625	766,625
2018-2022	2,165,000	3,748,725	5,913,725
2023-2027	4,230,000	3,071,435	7,301,435
2028-2032	5,230,000	2,065,415	7,295,415
2033-2036	5,175,000	662,750	5,837,750
Total	\$ 16,800,000	13,381,450	30,181,450
Less current:	-		
Long-term	\$ 16,800,000		

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(8) Net Assets**

Calculation of net assets as of June 30, were as follows:

	<b>2012</b>	<b>2011</b>
<b>Net investment in capital assets:</b>		
Capital assets – not being depreciated	\$ 13,293,463	8,355,788
Capital assets, net – being depreciated	35,141,414	34,773,571
Restricted – cash – remaining bond proceeds	8,815,476	15,040,220
Restricted – accrued interest receivable	8,903	11,349
Current:		
Bonds payable	(585,377)	(565,000)
Non-current:		
Bonds payable	(2,923,656)	(4,468,986)
Certificates-of-participation	(16,919,288)	(16,924,310)
<b>Total net investment in capital assets</b>	<b>36,830,935</b>	<b>36,222,632</b>
<b>Restricted net assets:</b>		
Restricted - cash and cash equivalents	11,097,505	17,813,071
Restricted – cash – remaining bond proceeds	(8,815,476)	(15,040,220)
Accrued interest payable	(255,542)	(125,261)
<b>Total restricted net assets</b>	<b>2,026,487</b>	<b>2,647,590</b>
<b>Restricted net assets:</b>		
Restricted – capital projects	820,100	375,400
Restricted – debt service	1,206,387	2,272,190
<b>Total restricted net assets</b>	<b>2,026,487</b>	<b>2,647,590</b>
<b>Unrestricted net assets:</b>		
Non-spendable net assets:		
Materials and supplies inventory	413,073	372,479
Prepaid expenses and other deposits	211,285	159,489
Deferred charges, net	766,870	857,639
<b>Total non-spendable net assets</b>	<b>1,391,228</b>	<b>1,389,607</b>
Spendable net assets are designated as follows:		
Rate stabilization reserve	1,000,000	1,000,000
Operating contingency reserve	2,300,000	2,278,933
Water quality projects reserve	3,851,678	-
<b>Total spendable net assets</b>	<b>7,151,678</b>	<b>3,278,933</b>
<b>Total unrestricted net assets</b>	<b>8,542,906</b>	<b>4,668,540</b>
<b>Total net assets</b>	<b>\$ 47,400,328</b>	<b>43,538,762</b>

**(9) Prior Period Adjustment**

	<b>2012</b>
Net assets, beginning of year	\$ 45,265,982
CalPERS side-fund payoff	(1,727,220)
Net assets, beginning of year as restated	<b>\$ 43,538,762</b>

In fiscal year 2011, the District made a lump sum payment of \$1,727,220 to payoff its CalPERS side-fund and recorded the payment as a prepaid asset. However, the transaction should have been recorded as a non-operating expense. Therefore, the above noted prior period adjustment was recorded.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(10) Defined Benefit Pension Plan**

***Plan Description***

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA, 95814.

***Funding Policy***

The contribution rate for plan members in the CalPERS, 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary and is paid by the District. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. At fiscal year ended June 30, 2012, the District does not have an unfunded pension liability. For Fiscal years 2012, 2011 and 2010, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

***Three Year Trend Information:***

<u>Fiscal Year</u>	<u>Annual Pension cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>Hired Prior to 12/18/2005 APC Percentage of Payroll</u>	<u>Hired After 12/18/2005 APC Percentage of Payroll</u>
2011-2012	\$ 368,731	100%	-	13.213%	12.749%
2010-2011	468,095	100%	-	22.277%	9.680%
2009-2010	438,311	100%	-	20.451%	9.165%

**(11) Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(11) Risk Management, continued**

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

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to \$2.0 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ending June 30, 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012, 2011 and 2010, respectively.

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 60***

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have an impact on the presentation of the basic financial statements.

***Governmental Accounting Standards Board Statement No. 61***

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

***Governmental Accounting Standards Board Statement No. 62***

In December 2010, the GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 62, continued***

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

***Governmental Accounting Standards Board Statement No. 63***

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

***Governmental Accounting Standards Board Statement No. 65***

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

***Governmental Accounting Standards Board Statement No. 66***

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

***Governmental Accounting Standards Board Statement No. 68***

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**Soquel Creek Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 68, continued***

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**(13) Commitments and Contingencies**

***Grant Awards***

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

***Construction Contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

***Litigation***

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

**(14) Subsequent Events**

Events occurring after June 30, 2012, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2012, which is the date the financial statements were available to be issued.

# **Report on Internal Controls and Compliance**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

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## **Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Soquel Creek Water District  
Soquel, California

We have audited the basic financial statements of the Soquel Creek Water District (District) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 31, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

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

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPA's - An Accountancy Corporation**  
Cypress, California  
October 31, 2012