



Soquel Creek Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation



**Soquel Creek Water District
Board of Directors as of June 30, 2013**

Name	Title	Elected/ Appointed	Current Term
Dr. Thomas R. LaHue	President	Elected	12/12-12/16
Bruce Daniels	Vice President	Elected	12/12-12/16
Dr. Don Hoernschemeyer	Director	Elected	12/10-12/14
Dr. Bruce Jaffe	Director	Elected	12/10-12/14
Richard Meyer	Director	Appointed	12/12-12/14

**Soquel Creek Water District
Kim Adamson, General Manager
5180 Soquel Drive
Soquel, California 95073-2549
(831) 475-8500 – www.soquelcreekwater.org**

Soquel Creek Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Soquel Creek Water District
Annual Financial Report
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Financial Section



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Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Soquel Creek Water District
Soquel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Soquel Creek Water District (District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013 and 2012, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in note 1.E to the basic financial statements, in 2013 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the required supplementary information on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 34 and 35.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

October 31, 2013

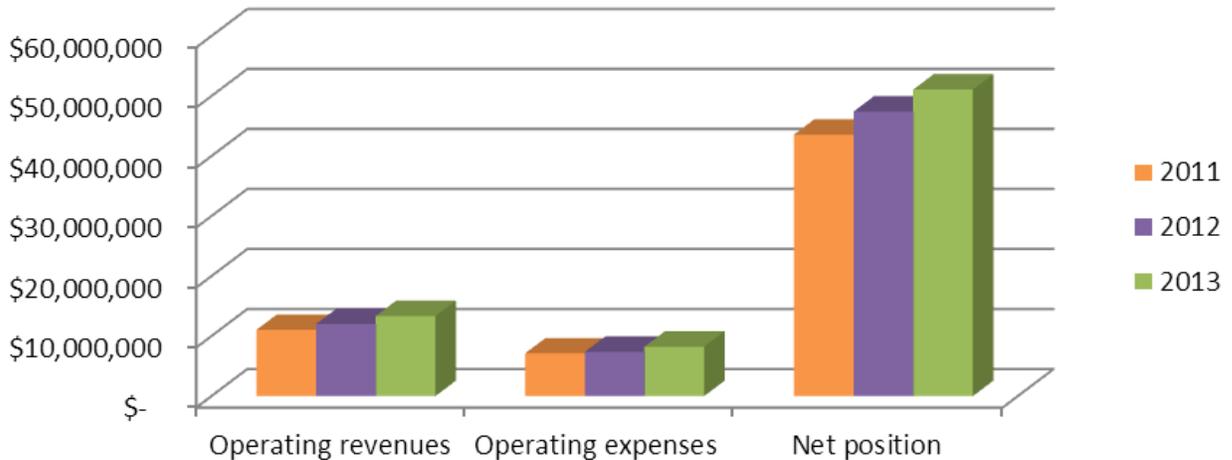
Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 position increased 7.72%, or \$3,661,435, to \$51,061,763 in fiscal year 2013 as a result of operations.
- The District's net position increased 8.87%, or \$3,861,566, to \$47,400,328 in fiscal year 2012 as a result of operations.
- In 2013, the District's operating revenues increased 11.1%, or \$1,332,415, primarily due to a \$1,035,914 increase in water consumption sales and a \$232,592 increase in water service charges.
- 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 2013, the District's operating expenses increased 11.79%, or \$867,901, primarily due to a \$383,273 increase in transmission and distribution expenses, a \$268,736 increase in general and administrative expenses and an \$112,650 increase in pumping expenses.
- 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.

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



Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, 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 Position 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 Position. 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 creditworthiness. 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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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 position* and changes in them. You can think of the District's net position – 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 position 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 15 through 31.

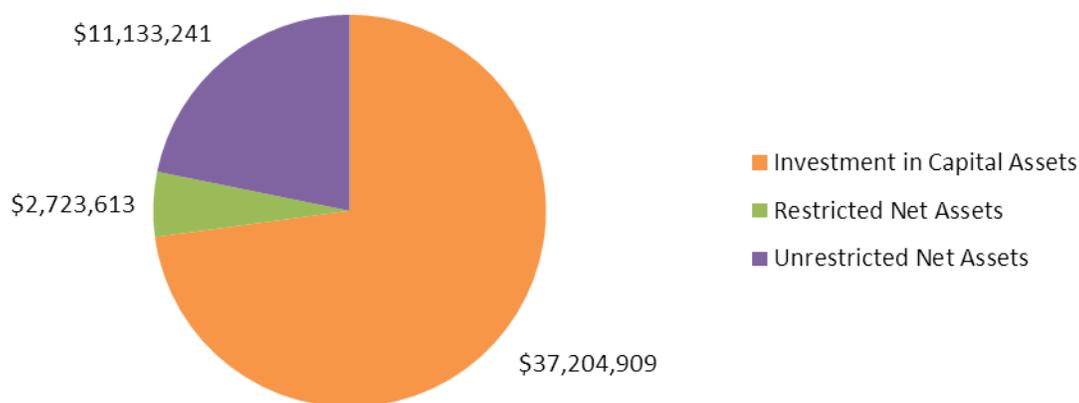
Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Statement of Net Position

Condensed Statement of Net Position					
	2013	2012	Change	2011	Change
Assets:					
Current assets	\$ 21,662,622	21,023,925	638,697	23,638,721	(2,614,796)
Non-current assets	50,143	766,870	(716,727)	857,639	(90,769)
Capital assets, net	50,991,636	48,434,877	2,556,759	43,129,359	5,305,518
Total assets	72,704,401	70,225,672	2,478,729	67,625,719	2,599,953
Deferred outflows of resources	95,799	115,967	(20,168)	82,582	33,385
Total assets and deferred outflow of resources	72,800,200	70,341,639	2,458,561	67,708,301	2,633,338
Liabilities:					
Current liabilities	2,140,509	2,418,082	(277,573)	2,141,973	276,109
Non-current liabilities	19,483,663	20,403,941	(920,278)	21,995,998	(1,592,057)
Total liabilities	21,624,172	22,822,023	(1,197,851)	24,137,971	(1,315,948)
Deferred inflow of resources	114,265	119,288	(5,023)	31,568	87,720
Net position:					
Investment in capital assets	37,204,909	36,822,032	382,877	36,222,632	599,400
Restricted	2,723,613	2,035,390	688,223	2,647,590	(612,200)
Unrestricted	11,133,241	8,542,906	2,590,335	4,668,540	3,874,366
Total net position	51,061,763	47,400,328	3,661,435	43,538,762	3,861,566
Total liabilities, deferred inflows and net position	\$ 72,800,200	70,341,639	2,458,561	67,708,301	2,633,338

As noted earlier, net position 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 \$51,061,763 and \$47,400,328 as of June 30, 2013 and 2012, respectively.

Net Position Allocation as of June 30, 2013



By far the largest portion of the District's net position (73% as of June 30, 2013, and 78% as of June 30, 2012) 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.

Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

At the end of fiscal years 2013 and 2012, the District showed a positive balance in its unrestricted net assets of \$11,133,241 and \$8,542,906, respectively, which may be utilized in future years. See note 9 of the financial statements for further information.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position					
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 13,332,434	12,000,019	1,332,415	11,014,431	985,588
Non-operating revenues	85,834	116,277	(30,443)	69,124	47,153
Total revenues	<u>13,418,268</u>	<u>12,116,296</u>	<u>1,301,972</u>	<u>11,083,555</u>	<u>1,032,741</u>
Expenses:					
Operating expenses	8,228,355	7,360,454	867,901	7,104,016	256,438
Depreciation and amortization	2,288,498	1,957,121	331,377	1,962,041	(4,920)
Non-operating expenses	1,153,760	1,018,098	135,662	2,117,862	(1,099,764)
Total expenses	<u>11,670,613</u>	<u>10,335,673</u>	<u>1,334,940</u>	<u>11,183,919</u>	<u>(848,246)</u>
Net income before capital	<u>1,747,655</u>	<u>1,780,623</u>	<u>(32,968)</u>	<u>(100,364)</u>	<u>1,880,987</u>
Capital contributions	1,913,780	2,080,943	(167,163)	450,584	1,630,359
Change in net position	<u>3,661,435</u>	<u>3,861,566</u>	<u>(200,131)</u>	<u>350,220</u>	<u>3,511,346</u>
Net position, beginning of year	<u>47,400,328</u>	<u>43,538,762</u>	<u>3,861,566</u>	<u>43,188,542</u>	<u>350,220</u>
Net position, end of year	<u>\$ 51,061,763</u>	<u>47,400,328</u>	<u>3,661,435</u>	<u>43,538,762</u>	<u>3,861,566</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, the District's net position increased by \$3,661,435 and \$3,861,566 for the fiscal years ended June 30, 2013 and 2012, respectively.

A closer examination of the sources of changes in net position reveals that:

Total Revenues

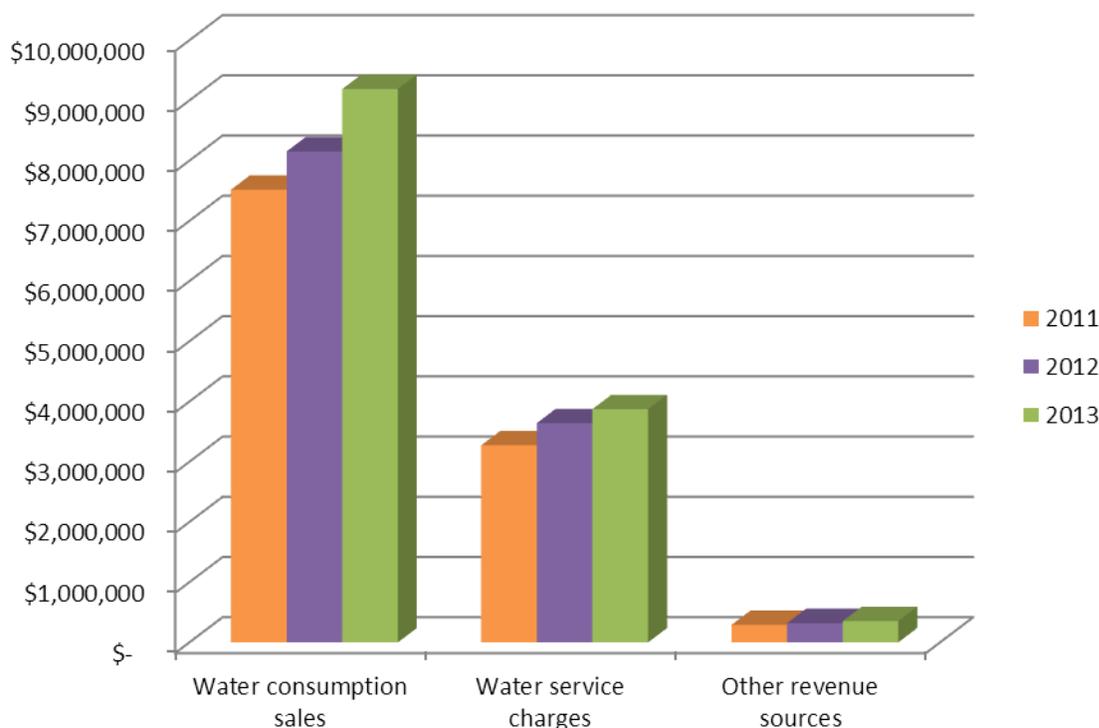
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 9,189,791	8,153,877	1,035,914	7,519,608	634,269
Water service charges	3,874,698	3,642,105	232,593	3,273,878	368,227
Water conservation – credit	188,642	149,172	39,470	157,770	(8,598)
Other charges for services	79,303	54,865	24,438	63,175	(8,310)
Total operating revenues	<u>13,332,434</u>	<u>12,000,019</u>	<u>1,332,415</u>	<u>11,014,431</u>	<u>985,588</u>
Non-operating revenue:					
Interest earnings	56,181	99,477	(43,296)	52,324	47,153
Rental revenue	18,000	16,800	1,200	16,800	-
Other non-operating revenue	11,653	-	11,653	-	-
Total non-operating revs.	<u>85,834</u>	<u>116,277</u>	<u>(30,443)</u>	<u>69,124</u>	<u>47,153</u>
Total revenues	<u>\$ 13,418,268</u>	<u>12,116,296</u>	<u>1,301,972</u>	<u>11,083,555</u>	<u>1,032,741</u>

In 2013, the District's operating revenues increased 11.1%, or \$1,332,415, primarily due to a \$1,035,914 increase in water consumption sales and a \$232,592 increase in water service charges. The District adopted a 9% rate increase in 2013 while water consumption increased 3.19% over the prior year, generating the increase in operating revenue.

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.

Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Changes in Revenue by Category



Total Expenses

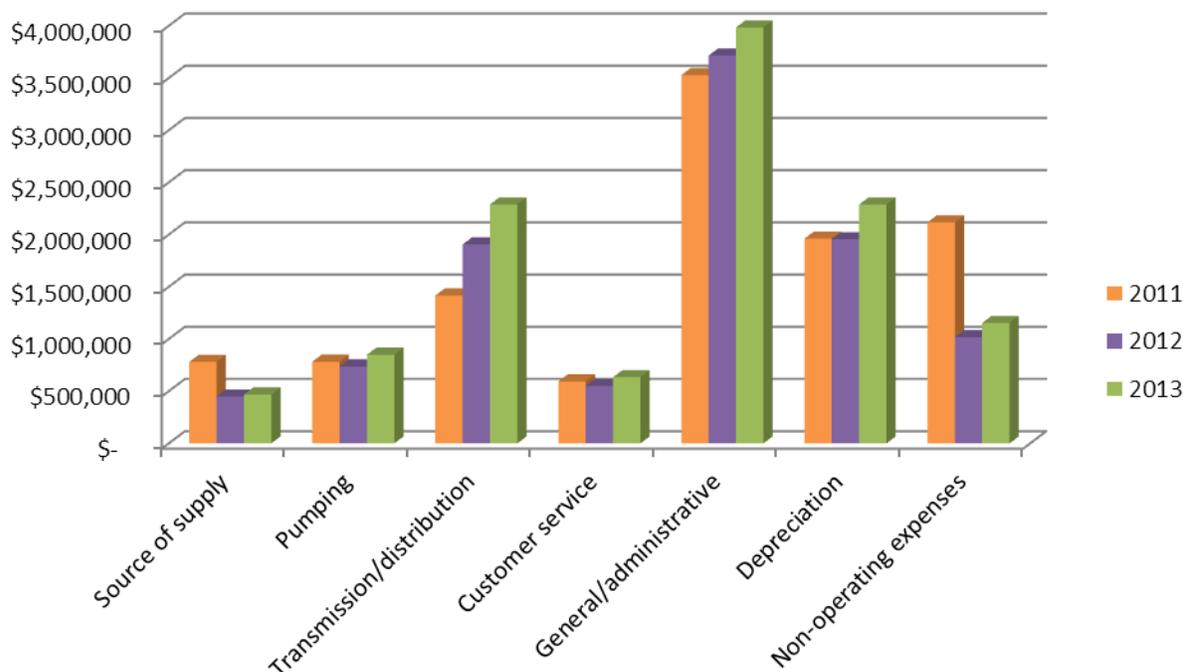
	2013	2012	Change	2011	Change
Operating expenses:					
Source of supply	\$ 468,791	450,014	18,777	780,614	(330,600)
Pumping	850,285	737,635	112,650	783,275	(45,640)
Transmission and distribution	2,289,505	1,906,232	383,273	1,417,687	488,545
Customer service	634,600	550,135	84,465	593,790	(43,655)
General and administrative	3,985,174	3,716,438	268,736	3,528,650	187,788
Total operating expenses	<u>8,228,355</u>	<u>7,360,454</u>	<u>867,901</u>	<u>7,104,016</u>	<u>256,438</u>
Depreciation expense	<u>2,288,498</u>	<u>1,957,121</u>	<u>331,377</u>	<u>1,962,041</u>	<u>(4,920)</u>
Non-operating expenses:					
Interest expense	348,584	938,871	(590,287)	255,025	683,846
Amortization of debt items	802,451	76,675	725,776	66,131	10,544
Rental property expense	2,725	2,552	173	2,738	(186)
Loss on disposition of assets	-	-	-	66,748	(66,748)
CalPERS side-fund payoff	-	-	-	1,727,220	(1,727,220)
Total non-operating exps.	<u>1,153,760</u>	<u>1,018,098</u>	<u>135,662</u>	<u>2,117,862</u>	<u>(1,099,764)</u>
Total expenses	<u>\$ 11,670,613</u>	<u>10,335,673</u>	<u>1,334,940</u>	<u>11,183,919</u>	<u>(848,246)</u>

In 2013, the District's operating expenses increased 11.79%, or \$867,901, primarily due to a \$383,273 increase in transmission and distribution expenses, a \$268,736 increase in general and administrative expenses and an \$112,650 increase in pumping expenses. Projects contributing to the increase in operating expenses include the escalation of AMR meter replacements, a pilot project for the treatment of hexavalent chromium, increased conservation outreach efforts, consultants to assist with rate studies and labor negotiations, and monitoring and mitigation efforts at the Polo Grounds Well and Treatment Plant.

Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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.

Changes in Expenses by Category



Capital Asset Administration

Changes in capital assets amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 13,293,463	5,439,654	(6,455,856)	12,277,261
Depreciable assets	69,047,304	5,871,853	(1,315,126)	73,604,031
Accumulated depreciation	(33,905,890)	(2,298,892)	1,315,126	(34,889,656)
Total capital assets	<u>\$ 48,434,877</u>	<u>9,012,615</u>	<u>(6,455,856)</u>	<u>50,991,636</u>

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	(32,027,869)	(1,957,121)	79,100	(33,905,890)
Total capital assets	<u>\$ 43,129,359</u>	<u>7,496,449</u>	<u>(2,190,931)</u>	<u>48,434,877</u>

At the end of fiscal year 2013 and 2012, the District's investment in capital assets amounted to \$50,991,636 and \$48,434,877 (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.

Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>
Long-term debt:				
2012 Revenue refunding bond \$	3,625,000	-	(585,377)	3,039,623
2011 Certificates-of-participation	<u>16,800,000</u>	<u>-</u>	<u>-</u>	<u>16,800,000</u>
Total long-term debt \$	<u>20,425,000</u>	<u>-</u>	<u>(585,377)</u>	<u>19,839,623</u>

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

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</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
2011 Certificates-of-participation	<u>16,800,000</u>	<u>-</u>	<u>-</u>	<u>16,800,000</u>
Total long-term debt \$	<u>21,885,000</u>	<u>3,625,000</u>	<u>(5,085,000)</u>	<u>20,425,000</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.

Debt Service Coverage

The debt service coverage for fiscal years 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Revenues:		
Water sales	\$ 9,189,791	8,153,877
Service charges	3,874,698	3,642,105
Water capacity fees	716,800	444,700
Water demand offset credits	188,642	149,172
Interest income	56,181	99,477
Other/miscellaneous	<u>108,956</u>	<u>71,665</u>
Total revenues	<u>14,135,068</u>	<u>12,560,996</u>
Operating and maintenance expenses:		
Cost of sales	3,608,581	3,093,881
Customer expenses	634,600	550,135
General and administrative expenses	<u>3,985,174</u>	<u>3,716,438</u>
Total operating expenses	<u>8,228,355</u>	<u>7,360,454</u>
Net revenues	<u>5,906,713</u>	<u>5,200,542</u>
Debt service (due in fiscal year)	1,381,133	1,320,084
Debt service coverage	4.28	3.94
Net income after debt service	<u>\$ 4,525,580</u>	<u>3,880,458</u>

Note: Operating and maintenance expenses may include some non-operating expenses that the District funds through its operating fund.

Soquel Creek Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Conditions Affecting Current Financial Position

In July 2013, the District issued \$17,520,000 in 2013 certificates-of-participation to fund various capital improvements to the water system. In addition, 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.

Basic Financial Statements

Soquel Creek Water District
Statements of Net Position
June 30, 2013 and 2012

<i>Assets and Deferred Outflows of Resources</i>	2013	2012
Current assets:		
Cash and cash equivalents (note 2)	\$ 11,244,742	8,564,218
Restricted – cash and cash equivalents (note 2)	9,050,084	11,097,505
Accrued interest receivable	7,132	5,933
Restricted – accrued interest receivable	13,019	8,903
Accounts receivable – water sales and services, net	873,001	712,607
Accounts receivable – other	87,577	10,401
Materials and supplies inventory	267,037	413,073
Prepaid expenses and other deposits	120,030	211,285
Total current assets	21,662,622	21,023,925
Non-current assets:		
Deferred charges, net (note 3)	-	766,870
Other post-employment benefits asset (note 8)	50,143	-
Capital assets – not being depreciated (note 4)	12,277,261	13,293,463
Capital assets, net – being depreciated (note 4)	38,714,375	35,141,414
Total non-current assets	51,041,779	49,201,747
Total assets	72,704,401	70,225,672
Deferred outflows of resources:		
Discount on bonds payable, net (note 5)	14,973	18,125
Deferred loss on debt defeasance, net (note 5)	80,826	97,842
Total deferred outflows of resources	95,799	115,967
Total assets and deferred outflows of resources	\$ 72,800,200	70,341,639
<i>Liabilities, Deferred Inflows of Resources and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 951,403	1,211,169
Accrued wages and related payables	113,122	139,459
Deferred revenue and other deposits	136,280	151,535
Accrued interest payable	268,128	255,542
Long-term liabilities – due within one year:		
Compensated absences (note 6)	78,904	75,000
Bonds payable (note 7)	592,672	585,377
Total current liabilities	2,140,509	2,418,082
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	236,712	224,999
Other post-employment benefits payable (note 8)	-	339,319
Bonds payable (note 7)	2,446,951	3,039,623
Certificates-of-participation (note 7)	16,800,000	16,800,000
Total non-current liabilities	19,483,663	20,403,941
Total liabilities	21,624,172	22,822,023
Deferred inflows of resources:		
Premium on certificates-of-participation, net (note 5)	114,265	119,288
Total deferred inflows of resources	114,265	119,288
Net position: (note 9)		
Net investment in capital assets	37,204,909	36,822,032
Restricted – capital projects	1,525,700	820,100
Restricted – debt service	1,197,913	1,215,290
Unrestricted	11,133,241	8,542,906
Total net position	51,061,763	47,400,328
Total liabilities, deferred inflows of resources and net position	\$ 72,800,200	70,341,639

See accompanying notes to the basic financial statements

Soquel Creek Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Water consumption sales	\$ 9,189,791	8,153,877
Water service charges	3,874,698	3,642,105
Water conservation – water demand offset credit	188,642	149,172
Other charges for services	79,303	54,865
Total operating revenues	13,332,434	12,000,019
Operating expenses:		
Source of supply	468,791	450,014
Pumping	850,285	737,635
Transmission and distribution	2,289,505	1,906,232
Customer service and meter reading	634,600	550,135
General and administrative	3,985,174	3,716,438
Total operating expenses	8,228,355	7,360,454
Operating income before depreciation	5,104,079	4,639,565
Depreciation and amortization	(2,288,498)	(1,957,121)
Operating income	2,815,581	2,682,444
Non-operating revenue(expense):		
Interest earnings	56,181	99,477
Rental revenue	18,000	16,800
Interest expense	(348,584)	(938,871)
Amortization of deferred charges	(787,306)	(73,621)
Amortization of deferred resources – inflows/(outflows) (note 5)	(15,145)	(3,054)
Other non-operating revenue	11,653	-
Rental property expense	(2,725)	(2,552)
Total non-operating, net	(1,067,926)	(901,821)
Net income(loss) before capital contributions	1,747,655	1,780,623
Capital contributions:		
State capital grants	922,175	1,028,392
Capacity charges	716,800	444,700
Capital contributions	274,805	607,851
Total capital contributions	1,913,780	2,080,943
Change in net position	3,661,435	3,861,566
Net position, beginning of year	47,400,328	43,538,762
Net position, end of year	\$ 51,061,763	47,400,328

See accompanying notes to the basic financial statements

Soquel Creek Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 13,091,262	11,906,106
Cash paid to employees for salaries and wages	(2,844,179)	(2,625,978)
Cash paid to vendors and suppliers for materials and services	(5,806,833)	(4,672,356)
Net cash provided by operating activities	4,440,250	4,607,772
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,845,257)	(7,262,639)
Capital contributions	1,913,780	2,080,943
Proceeds from the issuance of debt	-	4,636,867
Cost of debt issuance	(20,436)	(63,385)
Reacquisition price of escrowed funds	-	(4,573,482)
Principal paid on long-term debt	(585,377)	(1,460,000)
Interest paid on long-term debt	(335,998)	(864,471)
Net cash used by capital and related financing activities	(3,873,288)	(7,506,167)
Cash flows from investing activities:		
Rental revenue	18,000	16,800
Rental property expense	(2,725)	(2,552)
Interest earnings	50,866	100,775
Net cash provided by investing activities	66,141	115,023
Net increase(decrease) in cash and cash equivalents	633,103	(2,783,372)
Cash and cash equivalents, beginning of year	19,661,723	22,445,095
Cash and cash equivalents, end of year	\$ 20,294,826	19,661,723
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 11,244,742	8,564,218
Restricted assets – cash and cash equivalents	9,050,084	11,097,505
Total cash and cash equivalents	\$ 20,294,826	19,661,723

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, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,815,581	2,682,444
Adjustments to reconcile operating income to net cash provided by operating activities:		
Deprecation	2,288,498	1,957,121
Other non-operating revenue	11,653	-
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(160,394)	(94,146)
Accounts receivable – other	(77,176)	16,662
Materials and supplies inventory	146,036	(40,594)
Prepaid expenses and other deposits	91,255	(51,796)
Other post-employment benefits asset	(50,143)	-
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(259,766)	76,891
Accrued wages and related payables	(26,337)	58,899
Deferred revenue and other deposits	(15,255)	(16,429)
Compensated absences	15,617	24,358
Other post-employment benefits payable	(339,319)	(5,638)
Total adjustments	1,624,669	1,925,328
Net cash provided by operating activities	\$ 4,440,250	4,607,772

See accompanying notes to the basic financial statements

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(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, Seascape, 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 financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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 prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The District implemented this new pronouncement in the current year. The effect of the implementation of this statement to the District is limited to renaming of *Net Assets* to *Net Position*.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

D. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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 position 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. Per the implementation of GASB No. 65 in 2013, deferred charges were fully-amortized.

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

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 credit worthiness or when collection problems occur.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

D. Assets, Liabilities and Net Position, continued

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 Position

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

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

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

The District has reclassified certain prior year information to conform to current year presentations as well as conforming to the implementation of GASB No. 63 and 65.

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, 2013 and 2012

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

E. Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the District implemented the following Governmental Accounting Standards Board pronouncements:

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. There were no Concession Arrangements entered into by the District.

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*.

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.

Hereinafter, these pronouncements collectively are referred to as the ***FASB & 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.

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***.

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.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments

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

	2013	2012
Cash and cash equivalents	\$ 11,244,742	8,564,218
Restricted – cash and cash equivalents	9,050,084	11,097,505
Total cash and investments	\$ 20,294,826	19,661,723

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

	2013	2012
Cash on hand	\$ 600	600
Deposits with financial institutions	840,721	1,913,278
Local Agency Investment Fund (LAIF)	11,929,121	7,470,440
Held with bond trustee:		
Deposits in money market funds – reserve fund	1,461,840	1,461,929
Deposits in money market funds – project fund	85	7,704
Local Agency Investment Fund (LAIF) – project fund	6,062,459	8,807,772
Total cash and investments	\$ 20,294,826	19,661,723

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:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
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:

Authorized Investment Type	Maximum Maturity	Percentage Of Portfolio	Investment in One Issuer
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, 2013 and 2012

(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, 2013 and 2012, respectively.

(3) Deferred Charges

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

	2013	2012
2012 Refunding bonds	\$ -	374,399
2011 Certificates-of-participation	-	392,471
Total	\$ - *	766,870

* In fiscal year 2013, the District implemented GASB No. 65, which fully-amortized this amount

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(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 2013 fiscal year, were as follows:

	Balance 2012	Additions	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land	\$ 2,471,197	-	-	2,471,197
Construction-in-process	10,822,266	5,439,654	(6,455,856)	9,806,064
Total non-depreciable assets	<u>13,293,463</u>	<u>5,439,654</u>	<u>(6,455,856)</u>	<u>12,277,261</u>
Depreciable assets:				
Transmission and distribution system	64,136,561	5,612,732	(942,436)	68,806,857
Structures and improvements	1,533,807	73,787	-	1,607,594
Vehicles and equipment	3,376,936	174,940	(362,296)	3,189,580
Total depreciable assets	<u>69,047,304</u>	<u>5,861,459</u>	<u>(1,304,732)</u>	<u>73,604,031</u>
Accumulated depreciation:				
Transmission and distribution system	(30,739,788)	(2,069,637)	942,436	(31,866,989)
Structures and improvements	(755,357)	(33,475)	-	(788,832)
Vehicles and equipment	(2,410,745)	(185,386)	362,296	(2,233,835)
Total accumulated depreciation	<u>(33,905,890)</u>	<u>(2,288,498)</u>	<u>1,304,732</u>	<u>(34,889,656)</u>
Total depreciable assets, net	<u>35,141,414</u>	<u>3,572,961</u>	<u>-</u>	<u>38,714,375</u>
Total capital assets, net	<u>\$ 48,434,877</u>	<u>9,012,615</u>	<u>(6,455,856)</u>	<u>50,991,636</u>

Changes in capital assets for the 2012 fiscal year, were as follows:

	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
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	<u>8,355,788</u>	<u>7,128,606</u>	<u>(2,190,931)</u>	<u>13,293,463</u>
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	<u>66,801,440</u>	<u>2,324,964</u>	<u>(79,100)</u>	<u>69,047,304</u>
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	<u>(32,027,869)</u>	<u>(1,957,121)</u>	<u>79,100</u>	<u>(33,905,890)</u>
Total depreciable assets, net	<u>34,773,571</u>	<u>367,843</u>	<u>-</u>	<u>35,141,414</u>
Total capital assets, net	<u>\$ 43,129,359</u>	<u>7,496,449</u>	<u>(2,190,931)</u>	<u>48,434,877</u>

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(5) Deferred Inflows and Outflows of Resources

Changes in deferred resources outflows and inflows for 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Amortization</u>	<u>Balance 2013</u>
Deferred outflows of resources:					
Discount on bonds payable, net	\$ 18,125	-	-	(3,152)	14,973
Deferred loss on debt defeasance, net	97,842	-	-	(17,016)	80,826
Total deferred outflows of resources	<u>\$ 115,967</u>	<u>-</u>	<u>-</u>	<u>(20,168)</u>	<u>95,799</u>
Deferred inflows of resources:					
Premium on certificates-of-participation, net	\$ 119,288	-	-	(5,023)	114,265
Total deferred inflows of resources	<u>\$ 119,288</u>	<u>-</u>	<u>-</u>	<u>(5,023)</u>	<u>114,265</u>
Amortization of deferred resources – inflows/(outflows), net				\$ (15,145)	

Changes in deferred resources outflows and inflows for 2012, were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Amortization</u>	<u>Balance 2012</u>
Deferred outflows of resources:					
Discount on bonds payable, net	\$ -	18,125	-	-	18,125
Deferred loss on debt defeasance, net	82,582	-	27,452	(12,192)	97,842
Total deferred outflows of resources	<u>\$ 82,582</u>	<u>18,125</u>	<u>27,452</u>	<u>(12,192)</u>	<u>115,967</u>
Deferred inflows of resources:					
Premium on bonds payable, net	\$ 31,568	-	(27,452)	(4,116)	-
Premium on certificates-of-participation, net	124,310	-	-	(5,022)	119,288
Total deferred inflows of resources	<u>\$ 155,878</u>	<u>-</u>	<u>(27,452)</u>	<u>(9,138)</u>	<u>119,288</u>
Amortization of deferred resources – inflows/(outflows), net				\$ (3,054)	

(6) Compensated Absences

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

<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 299,999	136,542	(120,925)	315,616	78,904	236,712
<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 275,641	127,564	(103,206)	299,999	75,000	224,999

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(7) Long-Term Debt

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Adjustments</u>	<u>Balance 2013</u>
Long-term debt:				
2012 Revenue refunding bond	\$ 3,625,000	-	(585,377)	3,039,623
2011 Certificates-of participation	16,800,000	-	-	16,800,000
Total long-term debt	20,425,000	-	(585,377)	19,839,623
Less current portion	(585,377)			(592,672)
Non-current portion	\$ 19,839,623			19,246,951

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
2011 Certificates-of participation	16,800,000	-	-	16,800,000
Total long-term debt	21,885,000	3,625,000	(5,085,000)	20,425,000
Less current portion	(565,000)			(585,377)
Non-current portion	\$ 21,320,000			19,839,623

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, 2013, 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, 2013 and 2012

(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>
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	\$ 3,039,623	<u>107,077</u>	<u>3,146,700</u>
Less current:	<u>(592,672)</u>		
Long-term	\$ <u>2,446,951</u>		

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 1st and March 1st, with principal due on March 1st 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>
2014	\$ -	766,625	766,625
2015	-	766,625	766,625
2016	-	766,625	766,625
2017	-	766,625	766,625
2018	-	766,625	766,625
2019-2023	2,945,000	3,662,125	6,607,125
2024-2028	4,405,000	2,896,445	7,301,445
2029-2033	5,475,000	1,819,130	7,294,130
2034-2036	3,975,000	404,000	4,379,000
Total	\$ 16,800,000	<u>12,614,825</u>	<u>29,414,825</u>
Less current:	<u>-</u>		
Long-term	\$ <u>16,800,000</u>		

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(8) Other Post-Employment Benefits Payable/(Asset)

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 through collective bargaining.

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 16.5% 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:

	2013	2012	2011
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 442,207	433,731	403,059
Interest on net OPEB obligation	25,822	26,115	24,682
Interest earnings on irrevocable trust balance	(43,178)	(5,886)	(2,143)
Adjustment to annual required contribution	(34,885)	(24,071)	2,143
Total annual OPEB expense	389,966	429,889	427,741
Contributions made:			
Contributions made to irrevocable trust	(513,106)	(192,625)	(182,207)
Retiree benefit payments paid outside of a trust	(266,322)	(242,902)	(219,056)
Total contributions made	(779,428)	(435,527)	(401,263)
Total change in net OPEB payable obligation	(389,462)	(5,638)	26,478
OPEB payable(asset) - beginning of year	339,319	344,957	318,479
OPEB payable(asset) - end of year	\$ (50,143)	339,319	344,957

For the fiscal year ended June 30, 2013, the District’s ARC cost was \$389,966. The District’s net OPEB asset amounted to \$50,143 for the fiscal year ended June 30, 2013. The District contributed \$779,428 in contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2013.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(8) Other Post-Employment Benefits Payable/(Asset), 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 2013 and the two preceding fiscal years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable(Asset)
2013	\$ 389,966	779,428	199.9%	\$ (50,143)
2012	429,889	435,527	101.3%	339,319
2011	427,741	401,263	93.8%	344,957

The most recent valuation (dated June 30, 2013) includes an Actuarial Accrued Liability of \$4,368,201 and an Unfunded Actuarial Accrued Liability of \$3,429,854. Plan assets amounted to \$938,347 as of June 30, 2013. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year ended June 30, 2013, was \$3,062,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 112%.

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	6/30/2013
Actuarial cost method	Projected unit credit cost method
Amortization method	Level dollar method
Remaining amortization period	26 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 2015 reducing to 5.0% in 2020
Inflation - discount rate	2.80%
Individual salary growth	3.00% per annum, aggregate

See Page 33 for the Schedule of Funding Status

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(9) Net Position

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

	<u>2013</u>	<u>2012</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 12,277,261	13,293,463
Capital assets, net – being depreciated	38,714,375	35,141,414
Restricted – cash – remaining bond proceeds	6,071,362	8,815,476
Deferred outflows of resources	95,799	115,967
Current:		
Bonds payable	(592,672)	(585,377)
Non-current:		
Bonds payable	(2,446,951)	(3,039,623)
Certificates-of-participation	(16,800,000)	(16,800,000)
Deferred inflows of resources	(114,265)	(119,288)
Total net investment in capital assets	<u>37,204,909</u>	<u>36,822,032</u>
Restricted net position:		
Restricted - cash and cash equivalents	9,050,084	11,097,505
Restricted – cash – remaining bond proceeds	(6,071,362)	(8,815,476)
Restricted – accrued interest receivable	13,019	8,903
Accrued interest payable	(268,128)	(255,542)
Total restricted net position	<u>2,723,613</u>	<u>2,035,390</u>
Restricted net position:		
Restricted – capital projects	1,525,700	820,100
Restricted – debt service	1,197,913	1,215,290
Total restricted net position	<u>2,723,613</u>	<u>2,035,390</u>
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	267,037	413,073
Prepaid expenses and other deposits	120,030	211,285
Deferred charges, net	-	766,870
Other post-employment benefits asset	50,143	-
Total non-spendable net position	<u>437,210</u>	<u>1,391,228</u>
Spendable net position are designated as follows:		
Rate stabilization reserve	1,000,000	1,000,000
Operating contingency reserve	2,300,000	2,300,000
Water quality projects reserve	7,396,031	3,851,678
Total spendable net position	<u>10,696,031</u>	<u>7,151,678</u>
Total unrestricted net position	<u>11,133,241</u>	<u>8,542,906</u>
Total net position	<u>\$ 51,061,763</u>	<u>47,400,328</u>

**Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

(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

First Tier – Employees Hired Prior to December 18, 2005

Second Tier – Employees Hired After December 18, 2005

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 2013, 2012 and 2011 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.

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Third Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (6.25%) and member contribution rate (6.25%) is a combined rate of 12.50% which will be in effect until June 30, 2015.

For Fiscal years 2013, 2012, and 2011, 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:

Fiscal Year	Annual Pension cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Hired Prior to 12/18/2005 APC Percentage of Payroll	Hired After 12/18/2005 APC Percentage of Payroll
2012-2013	\$ 386,824	100%	-	13.776%	13.307%
2011-2012	368,731	100%	-	13.213%	12.749%
2010-2011	468,095	100%	-	22.277%	9.680%

See Page 32 for the Schedule of Funding Status.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(10) Defined Benefit Pension Plan

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	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	21 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(11) Commitments and Contingencies

Construction Contracts

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

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.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(12) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2013—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 impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

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.

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 District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Soquel Creek Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(13) 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, 2013, 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.
- 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, 2013. 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, 2013, 2012 and 2011, respectively.

(14) Subsequent Events

Debt Issuance

On July 16, 2013, the District issued \$17,520,000 of 30-year certificates-of-participation with a maturity date of March 1, 2043. Interest on the certificates-of-participation range from 3.00% to 5.00% over the term of the debt with debt service payments occurring on September 1, and March 1, of each fiscal year. Proceeds of the certificates-of-participation will be used to help finance certain capital improvements to the District's water system and pay the costs of debt issuance.

Other Matters

Events occurring after June 30, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2013, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Soquel Creek Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Defined Benefit Pension Plan – First Tier

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Miscellaneous 2.5% at 55 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ 20,344,613	-	-
2. Plan's side fund	-	-	-
3. Pool's accrued liability	2,135,350,204	-	-
4. Pool's side fund	(117,829,589)	-	-
5. Pool's actuarial value of assets (AVA) including receivables	1,724,200,585	-	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	17,386,783	-	-
7. Pool's market value of assets (MVA) including receivables	1,543,100,350	-	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	15,560,574	-	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio		Annual Covered Payroll
				AVA (b/a)	MVA (c/a)	
June 30, 2011	\$ 20,344,613	17,386,783	15,560,574	85.46%	76.48%	\$ 1,746,964
June 30, 2012	*	-	-	0.00%	0.00%	-
June 30, 2013	*	-	-	0.00%	0.00%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

(2) Defined Benefit Pension Plan – Second Tier

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Miscellaneous 2.5% at 55 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ 704,117	-	-
2. Plan's side fund	-	-	-
3. Pool's accrued liability	2,135,350,204	-	-
4. Pool's side fund	(117,829,589)	-	-
5. Pool's actuarial value of assets (AVA) including receivables	1,724,200,585	-	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	601,748	-	-
7. Pool's market value of assets (MVA) including receivables	1,543,100,350	-	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	538,544	-	-

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio		Annual Covered Payroll
				AVA (b/a)	MVA (c/a)	
June 30, 2011	\$ 704,117	601,748	538,544	85.46%	76.49%	\$ 965,315
June 30, 2012	*	-	-	0.00%	0.00%	-
June 30, 2013	*	-	-	0.00%	0.00%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

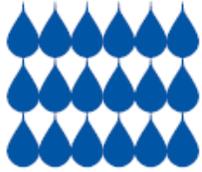
**Soquel Creek Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2013 and 2012**

(3) Other Post Employment Benefits Payable/(Asset)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2013	938,347	4,368,201	3,429,854	21.48%	3,062,000	112.01%
6/30/2011	184,350	3,876,950	3,692,600	4.76%	2,485,369	148.57%
7/1/2009	-	5,125,201	5,125,201	0.00%	2,370,000	216.25%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every two years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2016 based on the year ending June 30, 2015.

Report on Internal Controls and Compliance



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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Soquel Creek Water District (District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 audits, 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*.

**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*, (continued)**

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
October 31, 2013