

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
SAN BENITO COUNTY WATER DISTRICT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016



P. O. Box 899
30 Mansfield Road
Hollister, CA 95024

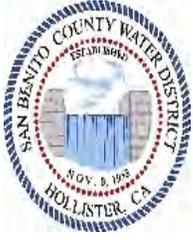
PREPARED BY THE FINANCE DEPARTMENT

**San Benito County Water District
 Comprehensive Annual Financial Report
 For the year ended June 30, 2016**

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INTRODUCTORY SECTION



San Benito County Water District

30 Mansfield Road • P.O. Box 899 • Hollister, CA 95024-0899 • (831) 637-8218 • Fax (831) 637-7267

December 30, 2016

Members of the Board of Directors
San Benito County Water District

We are pleased to present the San Benito County Water District's (District) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016.

The report was prepared by the District in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe that the data, as presented is accurate in all material respects and that it is presented in a manner designated to set forth fairly the financial position and results of operations of the District. Included are all the disclosures we believe are necessary to enhance understanding of the financial condition of the District.

McGilloway, Ray, Brown & Kaufman, Accountants and Consultants, have issued an unmodified ("clean") opinion on the San Benito County Water District's financial statements for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

MAJOR INITIATIVES AND PROGRAMS

Hollister Urban Area Water and Wastewater Master Plan

The Hollister Urban Area Water and Wastewater Master Plan (Master Plan) which was completed in 2008, provides a comprehensive plan and implementation program to meet the existing and future water resources needs of the Hollister Urban Area.

The major benefit of the project will be drinking water with lower hardness. Current groundwater quality is such that many residents treat their water using water softeners. Use of water softeners increases the salt load going to the local wastewater treatment facilities. Delivery of treated surface water to the residents will allow them to discontinue use of their water softeners. In turn it will improve the quality of treated wastewater making it suitable for use as reclaimed water for agriculture.

The goals of the Master Plan are based upon the principles and objectives defined in the Memorandum of Understanding (MOU). The following goals were used in developing this Master Plan:

- Improve municipal, industrial, and recycled water quality
- Increase the reliability of the water supply
- Coordinate infrastructure improvements for water and wastewater systems
- Implement goals of the Groundwater Management Plan
- Integrate the Long-term Wastewater Management Program (LTWMP)
- Support economic growth and development consistent with the City of Hollister and San Benito County General Plans and Policies
- Consider regional issues and solutions

The Master Plan Implementation Program is a plan for the initial phase of the Master Plan implementation and provides a regional approach to implement the water treatment recommendations presented in the 2008 Master Plan. The report updates the Master Plan recommendations with respect to current conditions including the ongoing drought, the Hollister Conduit capacity, recycled water quality needs, slower growth in water demands, and the economic conditions. The result of this work is a regional solution resulting in improved water quality, lower costs, and time phased implementation to reduce rate payer impacts.

The Hollister Urban Area Master Plan Implementation Program updated the concepts and recommendations presented in the Master Plan based on current conditions and provide a regional plan for water quality improvements. Drinking water quality improvements are necessary for both City of Hollister (COH) and Sunnyslope County Water District (SSCWD) customers. Due to the location of the existing Lessalt water treatment plant, delivery of high quality Central Valley Project (CVP) supplies is concentrated in the eastern portion of the Hollister Urban Area. The construction of the West Hills water treatment plant will provide a more equitable distribution of high quality drinking water. The improvement in drinking water quality is essential in meeting the Long Term Wastewater Management Plan goals. Improving the drinking water quality will also improve the quality of recycled water for agricultural users.

In August of 2013 the District, SSCWD, and COH each approved the Hollister Urban Area Water Supply and Treatment Agreement. The agreement lays out the roles and terms of financing for the project. The District will finance, build, own, and operate the upgraded Lessalt Water Treatment Plant, and the new West Hills Water Treatment Plant.

Lessalt Water Treatment Plant

Construction on the upgraded Lessalt Treatment plant was completed in January of 2015. The upgraded Lessalt Treatment plant will allow delivery of up to 2.5 million gallons a day (MGD) to the high zone of the Sunnyslope distribution area of Hollister. All project costs were completed within budget.

West Hills Water Treatment Plant

Construction of the new facility, which will initially treat up to 4.5 MGD of imported surface water for the Hollister Urban area began in October, 2016. Completion of the construction was originally expected by January 2018, however, currently the contractor expects to be complete by July of 2017. The plant will be built with the ability to increase its capacity up to 9 MGD when needed. Pipelines will be constructed to deliver treated surface water to the Hollister area including the Westside of Hollister.

Long-term Planning

The District, Sunnyslope County Water District and the City of Hollister have entered into a Memorandum of Understanding to provide an update to the Hollister Urban Area Master plan to reflect growth and demand. Work on the update began in December of 2015, and is expected to be complete by March 2017.

Recycled Water

In November 2014, the District received notification that the Department of Water Resources recommended the District's Recycled Water Project to receive \$1.1 million in state emergency drought grant funds. In addition, the District received a Prop 13 grant in the amount of \$413,424, awarded June 30, 2015. These funds were used to help complete a recycled water distribution system. Highly treated recycled water is being delivered from the Hollister wastewater treatment plant to nearby farmers in the vicinity of Wright Road. About 10,000 feet of distribution pipeline has been installed and the first recycled water for agricultural irrigation was delivered in June, 2016. To date 500 acre feet of recycled water has been delivered. The District is also currently working on a \$1,000,000 project to improve the recycled water storage facilities at the City of Hollister's Reclamation Plant. This will allow greater storage and operational flexibility. It is anticipated that with the completion of the storage facilities, about 1,200-1,400 acre feet of recycled water per year will be delivered, and nearly 100% of the recycled water produced between April – September of each year will be available for use. The use of recycled water for agricultural purposes will reduce demands on the groundwater basin. This project will supplement the agricultural surface water deliveries by the District.

San Justo Reservoir Reoperation Plan

San Justo Reservoir is an offstream storage reservoir owned by the USBR and operated by the District. It is comprised of a dam and dike embankment, an inlet/outlet works, and an emergency spillway. The reservoir has an active storage capacity of 9,786 acre-feet at elevation 500 feet and is supplied by water from San Luis Reservoir. Water from San Justo Reservoir is used by the District for irrigation and municipal purposes. The reservoir and its associated features were constructed between 1985 and 1986.

The reservoir area is comprised of soils that are prone to landslides. Since 1988, several landslides have occurred downstream of the dike. USBR set an operation restriction on the reservoir water level of approximately 7,500 acre feet to minimize damage from future landslides. The reoperation project seeks to restore use of the restricted storage volume during peak delivery months while maintaining dam safety.

The project's purpose is to develop a Seasonal Operation Plan and Long-Term Monitoring Plan to allow use of the storage volume lost due to restrictions from USBR. Use of the restricted storage volume will allow greater operational flexibility to the District's operations and allow for greater year to year storage of water.

In January 2011, the USBR approved the first phase of the reoperation plan. To date, everything has gone as expected with no evidence of adverse conditions created from the seasonal operation of the reservoir above the 485 foot elevation.

The District began the second phase in January 2012. Phase 2 of the reoperation plan allows for a longer duration of storage at the maximum elevation of 500 feet.

The District has received approval from USBR on the final phase of the plan which will include a long term monitoring and reporting plan. The plan will allow the District to continue the seasonal filling to a full 10,300 acre foot level and subsequent lowering throughout the growing season.

Having the flexibility to raise the reservoir to a full level since 2011 has allowed the District to store an additional 2,700 acre feet of its CVP allocated water each year that would have otherwise been lost to CVP carryover restrictions.

Zebra Mussels

Infestation of Zebra Mussels within San Justo Reservoir has been documented since February, 2008. Since then, the District, United States Bureau of Reclamation (USBR), and California Department of Fish and Game (DFG) have been working to develop an eradication plan to eliminate the mussels from the reservoir. One of the key concerns with any water source with mussel infestation is that the mussels will eventually migrate to the conveyance systems (i.e. the Hollister Conduit, or San Felipe Distribution System). In March of 2009 zebra mussel infestation was confirmed in the Hollister Conduit.

Up to this point most of the focus of the work has been on preparing the environmental documentation required to implement a plan to eradicate the mussels from San Justo Reservoir. The California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA) require agencies to follow a protocol of analysis and public disclosure of environmental impacts of proposed projects and to adopt all feasible measures to mitigate those impacts. The District has completed the CEQA work and USBR is nearly complete on NEPA efforts for eradication. The current assumption is that Potash will be used as the chemical to accomplish the desired eradication. A key component of determining the impact of the implementation of the eradication plan is an understanding of the method of injecting and mixing of the Potash to the reservoir. To date, the District has spent \$490,386 toward this eradication effort.

Currently, the District is taking advantage of the hypoxic water that develops in the reservoir each summer to help control the zebra mussel populations in the reservoir and distribution system. In addition to the hypoxic water, the District has been drawing the reservoir down approximately 40' each year to expose the mussels to desiccation in an effort to minimize the population in the reservoir. To date visual inspections indicate that this has been fairly effective. The District will continue to manage with operational modifications.

Delta Habitat Conservation and Conveyance Plan

The Delta Habitat Conservation and Conveyance Plan (DHCCP) is a program consisting of joint efforts by agencies of the federal government and the State of California and local agencies to fund and plan habitat conservation and water supply activities in the Sacramento San Joaquin River Delta/San Francisco Bay Estuary (the Bay Delta), including Bay Delta water conveyance options.

The purpose of the project is to complete general planning studies, preliminary engineering, and environmental compliance documentation required by California Environmental Quality Act and National Environmental Policy Act for the DHCCP. This work will lead to the implementation of actions that provide for conservation of endangered and special-status fish and wildlife species and the rehabilitation of associated habitat to address the adverse effects caused by changes to the natural Delta some as a result of CVP operations.

The Board of Directors of the San Luis & Delta-Mendota Water Authority (SLDMWA), of which the District is a member, has authorized participation in the DHCCP, a program of the Department of Water Resources (DWR), USBR and various State Water Project (SWP) and CVP contractors that includes planning, preliminary design and environmental compliance actions that will be necessary for developing Delta conveyance facilities.

Water Banking

The District has an agreement with Santa Clara Valley Water District (SCVWD) to store 4,500 acre feet of excess 2010 water-year water in Semi Tropic Water Storage District. The storage of this water will allow the District to draw upon that water in future water short years or for future water projects.

FINANCIAL MANAGEMENT

Rate Policy

The Board of Directors adopts water rates for groundwater, surface water, and rural water system services. The District follows the Proposition 218 landowner notification, protest process and public hearings for the adoption of new or increased rates and charges.

Budgetary Control

The District is not required by statute to adopt a budget; however, it does so annually to outline the major elements of the forthcoming year's operating and capital plans and to allocate funding required for those purposes. Budget appropriations for major capital projects continue from year to year until the project is completed. A quarterly financial report is reviewed by the Board Finance Committee and reported to the Board of Directors.

Accounting Systems

The District's books and records are maintained on an enterprise basis, as it is the intent of the Board to manage the District's operations as a business, thus matching revenues against costs to provide water service and implement programs to control, manage and conserve water. Revenues and expenses are recorded on the accrual basis in the period in which revenue is earned or expenses are incurred.

Internal Controls

The District's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District's assets from loss, theft, or misuse and to ensure adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management. The District's management believes that the current system of internal controls adequately safeguards the District's assets and provides reasonable assurance that accounting transactions are properly recorded.

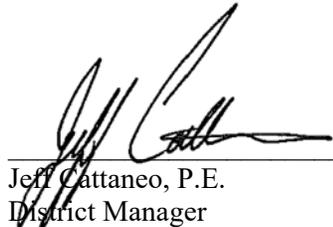
AWARDS AND ACKNOWLEDGEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

I would like to take this opportunity to thank the members of the San Benito County Water District's Board of Directors for their interest and support in the financial operations of the District. It is the responsible and progressive manner in which business is conducted that makes the District successful. I would like to extend special recognition to the District Finance and Administrative staff for their commitment to excellence in financial reporting. In addition, I would also like to thank the District's auditors McGilloway, Ray, Brown & Kaufman for their significant technical contribution and assistance. It is the combined effort of all participants that resulted in the issuance of this financial report.

Respectfully submitted,



Jeff Cattaneo, P.E.
District Manager

DISTRICT PROFILE

DISTRICT FORMATION

The District has broad powers for the conservation and management of water (flood, surface, drainage and ground water). The primary focus of the District is the management of water quantity and quality throughout San Benito County including, where appropriate, the development of local water supplies and the development and importation of water supplies from outside the County.

The District is a California Special District formed in 1953 by the San Benito County Water Conservation and Flood Control Act. At that time, the District merged with the Hollister Irrigation District, becoming the successor to the water rights, water facilities and land interests of the Hollister Irrigation District. The name was changed from San Benito County Water Conservation and Flood Control District to San Benito County Water District in 1988.

SERVICE AREA

The District encompasses all of San Benito County, with an area of approximately 1,400 square miles and a population of over 56,000 people. Residential communities served include: City of San Juan Bautista, City of Hollister, unincorporated urban areas surrounding Hollister and Tres Pinos.

The District provides water service and water related services through zones of benefit. Current zones of benefit are:

- District Administration (Zone 1)
- San Benito River System (Zone 3)
- San Felipe Project (Zone 6)
- Fairview Road Water System (Zone 104)

DISTRICT ORGANIZATION

A five-member Board of Directors (Board) governs the District. Board members are elected for four-year terms from divisions that are coterminous with the supervisory districts of San Benito County. Directors must be a resident of, and a registered voter in the division they represent. Members begin service in December of even numbered years.

To facilitate matters, most matters coming before the Board are first considered by one of its committees. Each committee then reports to the full Board, which makes the necessary decisions. There are eleven standing committees:

- Finance
- Investments
- Administration
- Expansion
- Rural Water Systems
- Zone 3 Operations and Water Supply
- Zone 6 Water Supply
- Zone 6 Operations
- Personnel
- Pacheco Reservoir Exploratory
- San Felipe Division Activities

Several ad-hoc committees exist for special purposes and meet on an as-needed basis.

In addition, Board members serve as the District representatives to the following Board of Directors and multi-agency committees:

- San Luis & Delta Mendota Water Authority (2 positions)
- Association of California Water Agencies-Joint Powers Insurance Authority
- Pajaro River Watershed Flood Prevention Authority
- Water Resources Association of San Benito County
- Hollister Urban Area Water and Wastewater Master Plan Governance Committee (2 positions)

An organizational chart of the District appears on page xi of the introductory section.

WATER RESOURCES MANAGEMENT

The principal water available to water users is local water and imported Central Valley Project (CVP) water. Local surface supplies are primarily percolated into the groundwater basin for later recovery through pumping by individual users and domestic water suppliers. The imported water supply from the San Felipe Project is available for use within the defined zone of benefit. The system provides for direct delivery to agricultural and other rural properties and for centralized delivery to the Hollister area for urban use. Under District rules and regulations, available imported surface water is supplemental to groundwater and is allocated to users within the zone of benefit on an annual basis.

Groundwater use, within the Hollister, San Juan, Tres Pinos and Paicines groundwater sub-basins had exceeded the natural supply for decades and a state of overdraft (use exceeds basin's natural ability to replenish itself) existed. Due to the District's management activity which includes management of local surface water supply and the importation of CVP water, the groundwater basin had fully recovered by 2001. The current land uses and the economy of San Benito County depend upon the water placed in groundwater storage and the water imported by the District. These conditions require careful management, data collection and analysis. The District maintains a groundwater and surface water quality database to support these efforts.

As a matter of practice, the Board of Directors has requested a groundwater report each year. The objective of this report is to conduct an audit of critical water resources and the actions taken to manage these resources, as well as making recommendations for management actions for forthcoming years. Public notice of this process is provided to encourage the participation of landowners and groundwater users.

In the 1950s, the San Benito River System was undertaken for storage and percolation of locally occurring surface water. The system was established to mitigate the overdraft in part of the San Benito portion of the Hollister-Gilroy Groundwater Basin. The Hernandez Dam was constructed and placed in operation in the early 1960s for the storage of locally occurring water. The District continues to operate this facility, as well as the Paicines Canal and Reservoir which was built in 1913 and rehabilitated in the early 1960s. The District holds water rights licenses from the State of California for Hernandez Dam and Reservoir, San Benito River and Dos Picachos Creek. These water rights permit the diversion and storage of surface water for percolation into the ground for later recovery and use. Water is released for percolation through the streambed at the San Benito River, Tres Pinos Creek, and a natural drainage adjacent to Dos Picachos Creek.

In the late 1970s, the San Felipe Project was initiated to correct the remaining overdraft in the San Benito County portion of the Hollister-Gilroy Groundwater Basin, to provide a water supply of appropriate quality, and to provide through conjunctive use an expanded water supply. The San Felipe Project's zone of benefit contains approximately 47,500 acres, which includes agricultural land within incorporated cities and adjacent urban areas. The District has contracted with the United States on behalf of landowners for water service from the San Felipe Division of the federal Central Valley Project. The District and the landowners and water users within this zone of benefit are the beneficiaries of State of California water rights held by the United States. These water rights are subject to the continuing jurisdiction of the State of California. Water use is subject to federal laws and regulations and the terms and condition of the contracts between the United States and the District.

The original San Felipe Project was to provide a high quality supplement to the local supplies to correct the groundwater overdraft, provide alternative supplies in certain areas with poor quality water (high Boron levels) and a firm long-term water supply. Since that original planning, the supply available to the District from the Central Valley Project has been significantly reduced as the Central Valley Project addresses water quality, endangered species, and the addition of fisheries as a principal purpose of the Central Valley Project. The District has undertaken a number of initiatives to identify projects and programs to ensure its supplies and restore reliability.

WATER SUPPLY

The District manages the federal contract with the United States Bureau of Reclamation (USBR) for delivery of water through the San Felipe unit of the Central Valley Project. The total federal contract entitlement is 43,800 acre feet of water per year (35,550 acre feet of Irrigation, 8,250 acre feet of Municipal and Industrial). Based on availability of water the USBR allocates a percentage of the contract entitlement.

The local water supply consists of water rights for Hernandez Dam and Reservoir, the San Benito River system, and the Dos Picachos Creek. The use of the water from Hernandez and the San Benito River is for spreading and later recovery by pumping from wells. The Dos Picachos water is diverted from December through May for spreading and later recovery by pumping from wells.

Additionally, from time to time, the District participates in transfers or purchases of water from other agencies.



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Benito County Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

SAN BENITO COUNTY WATER DISTRICT
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2016

BOARD OF DIRECTORS

John Tobias
Vice President, Division 1
Term Expires November 2018

Joe Tonascia
Director, Division 2
Term Expires November 2016

Frank Bettencourt
Director, Division 3
Term expires November 2016

Robert Huenemann
Director, Division 4
Term expires November 2018

Sonny Flores
President, Division 5
Term expires November 2016

DISTRICT COUNSEL

David E. Pipal
Pipal and Spurzem, LLP
Attorneys at Law

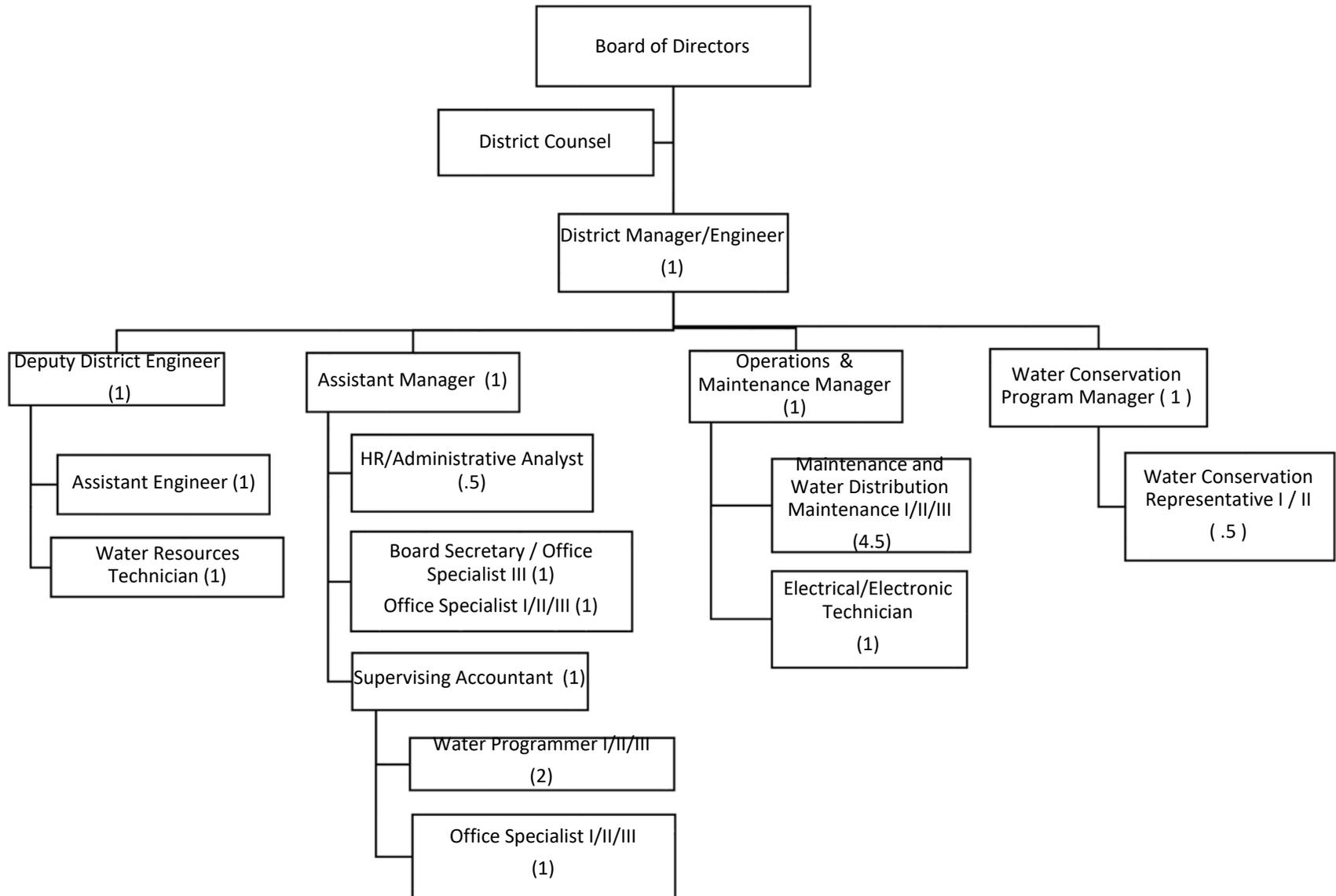
DISTRICT MANAGER

Jeff Cattaneo, P.E.

MISSION STATEMENT

The mission of the District is to preserve the economic and environmental wealth and well-being of San Benito County through the control, management and conservation of waters and the provision of water services in a practical, cost-effective and responsible manner.

SAN BENITO COUNTY WATER DISTRICT



Board approved
January 27, 2016

FINANCIAL SECTION

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

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Fax 831-373-3437

379 West Market Street
Salinas, CA 93901
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Fax 831-424-7936

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
of San Benito County Water District
San Benito, California

We have audited the accompanying financial statements of San Benito County Water District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA,
Larry W. Rollins, CPA, Jesus Montemayor, CPA*

*Sarita C. Shannon, CPA, Whitney Ernest, CPA, Devvyn MacBeth, CPA,
Smriti Shrestha, CPA, Wei Ding, CPA*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Benito County Water District as of June 30, 2016, and the respective changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Summarized Comparative Information

The financial statements include partial and summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which such partial and summarized information was derived.

We have previously audited the San Benito County Water District's 2015 financial statements, and our report dated, December 23, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information - the schedule of net position by zone, the schedule of revenues, expenses and changes in net position by zone and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information - schedule of net position by zone and the schedule of revenues, expenses and changes in net position by zone are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of net position by zone and the schedule of revenues, expenses and changes in net position by zone are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "McGilloway, Ray, Brown & Kaufman". The signature is written in a cursive, flowing style.

McGilloway, Ray, Brown & Kaufman
Salinas, California
December 30, 2016

San Benito County Water District

Management's Discussion And Analysis June 30, 2016

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the Financial Statements which follows this section.

FINANCIAL HIGHLIGHTS

- Total net position increased by \$2,316,339 to \$94,980,686. Financial results reflect the continued implementation of the Hollister Urban Area Water Supply and Treatment Agreement and the newly constructed recycled water pipeline.
- Other assets increased by \$10,590,693 to \$47,309,268 primarily due to the Westhills Water Treatment Plant construction in progress. The plant is expected to be operational in fiscal year 2017-2018.
- Total liabilities increased by \$12,822,843 to \$40,718,815 primarily due to the District receiving a capital improvement loan and the construction cost of the Westhills Treatment Plant and the Recycled Water project.
- Operating revenue increased by \$2,871,591 to \$5,714,866 resulting from the sale of higher priced transfer water due to the reduced federal water allocations.
- Operating expenses increased by \$2,522,339 to \$8,947,666 due to the purchase of transfer water to augment the District's water supply.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the San Benito County Water District's basic financial statements. The District's basic financial statements have three components: 1) Management's Discussion and Analysis, 2) Basic Financial Statements and 3) Notes to Financial Statements. In addition to the Basic Financial Statements, other supplementary information is provided for further information and analysis.

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements present both short- and long-term information about its activities.

The Statement of Net Position includes all of the District's assets, deferred outflows, liabilities, and deferred inflows, and provides information about the nature and amount of investment in resources (assets) and the obligations to District creditors (liabilities). This statement provides the financial information to evaluate the capital structure of the District and to assess the liquidity and financial flexibility of the District. The difference between the assets, deferred outflows, liabilities and deferred inflows is shown as net position. Over time, increase or decrease in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets report all of the current year revenues and expenses. This statement reports the financial impact of the District's activities over the past year and can be used to determine whether the District has successfully recovered all of its costs through its user fees, charges and other revenues.

The Statement of Cash Flows is intended to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash as a result of operations, capital activities, and investments.

The Notes to the Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosure required by Generally Accepted Accounting Principles (GAAP) that are not otherwise present in the financial statements.

San Benito County Water District

Management's Discussion And Analysis June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT

Net Position

The following is the condensed Statement of Net Position for the fiscal years ended June 30, 2016 and 2015:

San Benito County Water District
Condensed Statement of Net Position
June 30, 2016 and 2015

	Fiscal Year Ended June 30,		Change	
	2016	2015	Amount	Percent
Current assets	\$ 48,469,981	\$ 46,904,069	\$ 1,565,912	3.3%
Other assets	47,309,268	36,718,575	10,590,693	28.8%
Capital assets, net	39,655,070	37,185,847	2,469,223	6.6%
Total Assets	135,434,319	120,808,491	14,625,828	12.1%
Deferred outflows of resources	478,988	217,870	261,118	119.9%
Current liabilities	6,474,417	2,150,711	4,323,706	201.0%
Long-term liabilities	34,244,398	25,745,261	8,499,137	33.0%
Total Liabilities	40,718,815	27,895,972	12,822,843	46.0%
Deferred inflows of resources	213,806	466,042	(252,236)	-54.1%
Net Position:				
Net investment in capital assets	39,655,070	37,185,847	2,469,223	6.6%
Restricted	22,223,966	28,132,497	(5,908,531)	-21.0%
Unrestricted	33,101,650	27,346,003	5,755,647	21.0%
Total Net Position	\$ 94,980,686	\$ 92,664,347	\$ 2,316,339	2.5%

Net position increased in 2016 to \$94,980,686 up \$2,316,339 from fiscal year end 2015. Changes in other assets, long-term liabilities and net position, restricted and unrestricted reflect the District's continued implementation and investment in the Hollister Urban Area Water Supply and Treatment Agreement (HUWSTA). Net investment in capital assets increased by \$2,469,223 which is primarily the capitalization of the Recycled Water Project completed in May, 2016 and an increase in water rights.

San Benito County Water District

Management's Discussion And Analysis

June 30, 2016

Revenues, Expenses and Changes in Net Position

The following is the Condensed Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2016 and 2015:

San Benito County Water District
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the fiscal years ended June 30, 2016 and 2015

	Fiscal Year Ended June 30,		Change	
	2016	2015	Amount	Percent
Revenues:				
Operating revenues	\$ 5,714,866	\$ 2,843,275	\$2,871,591	101.0%
Nonoperating revenues	8,975,126	10,785,637	(1,810,511)	-16.8%
Total Revenues	<u>14,689,992</u>	<u>13,628,912</u>	<u>1,061,080</u>	<u>7.8%</u>
Expenses:				
Depreciation and amortization expense	(1,633,108)	(1,114,107)	(519,001)	46.6%
Operating expense	(8,947,666)	(6,425,327)	(2,522,339)	39.3%
Capital contribution to other government	-	(724,648)	724,648	-100.0%
Nonoperating expense	(1,792,879)	(73,163)	(1,719,716)	2350.5%
Total Expenses	<u>(12,373,653)</u>	<u>(8,337,245)</u>	<u>(4,761,056)</u>	<u>57.1%</u>
Capital Contribution				
Capital contribution	-	250,000	(250,000)	-100.0%
Total Capital Contribution	<u>-</u>	<u>250,000</u>	<u>(250,000)</u>	<u>-100.0%</u>
Change in Net Position	2,316,339	5,541,667	(3,225,328)	-58.2%
Net Position, Beginning of Year	92,664,347	88,749,842	3,914,505	4.4%
Prior period adjustment related to pension liabilities	-	(1,627,162)	1,627,162	-100.0%
Net Position, End of Year	<u>\$ 94,980,686</u>	<u>\$92,664,347</u>	<u>\$2,316,339</u>	<u>2.5%</u>

Total revenue increased by \$1,061,080. The District worked to acquire other sources of water to assist with the reduced USBR allocations over the last year. The increase in operating revenues is a direct result of such activity. Increased quantities available to sell to our customers and higher prices contributed to the increase in operating revenue.

Total operating expenses increased primarily due to the cost of purchased transfer water. Although overall operating expenses increased from prior year, wages and employee related expenses are lower, as no unusual pension related expense associated with the implementation of GASB 68 and 71 was incurred this year, as in prior year. Depreciation expense was higher as the improvement of the Lessalt Treatment Plant was completed last fiscal year and began depreciating in the current fiscal year.

San Benito County Water District

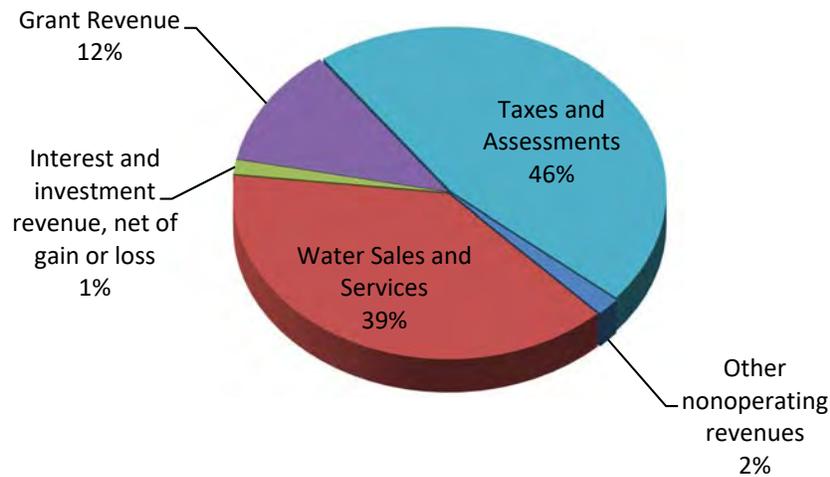
Management's Discussion And Analysis June 30, 2016

Non-operating revenue reflects a decrease of \$1.8 million from prior year. This decrease is the net result of reduced grant activity in the current fiscal year and an increase in property taxes received.

Non-operating expenses includes the reclassification of several multi-year projects that were closed and expensed in the current fiscal year for approximately \$1.5 million. In prior years, these projects were reflected in work in progress.

The various operating and non-operating revenues are as follows:

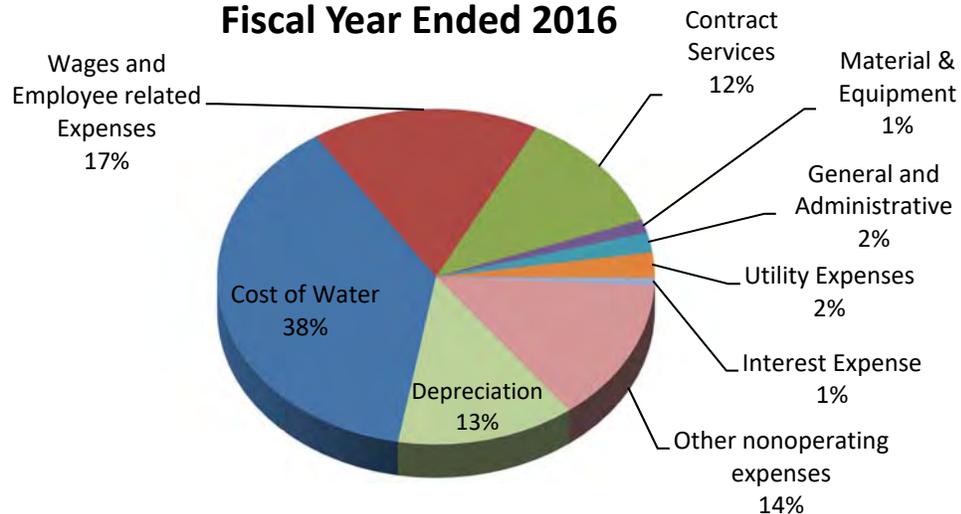
SOURCES OF REVENUE Fiscal Year Ended 2016



Overall, the District's expenses of \$12,373,653 for fiscal year 2016 is an increase of \$4,036,408 from fiscal year 2015.

The various operating and non-operating expenses are as follows:

EXPENSES Fiscal Year Ended 2016



San Benito County Water District

Management's Discussion And Analysis June 30, 2016

Capital Assets

Capital assets include land and land rights, source of supply plant, pumping plant, transmission and distribution system, general plant, treatment plant, and water rights. The Central Valley Project reflects the portion of payments on the Second Amendment to the USBR Contract that are the capital costs for the San Felipe Division. The Semitropic Water Storage cost is for the water stored at Semitropic Water Storage District. The Reach 1 Capital Improvement is part of the on-going project with SCVWD for major repairs and replacement of equipment at the Reach 1 facilities. In the current fiscal year, Wright Road Pipeline and the San Justo Reservoir Re-operation Project, two multi-year projects were completed and reclassified to water rights. The District's participation in the City of Hollister's Wright Road Pipeline upgrade, was in support of the District's Recycled Water project. The San Justo Reservoir project cost is for the reoperation plan to better manage the storage and operation of the reservoir for the USBR. The costs will be amortized beginning in fiscal year 2017.

At June 30, 2016, the District had \$61,299,404 in capital assets with \$19,271,544 in accumulated depreciation and \$2,372,790 in accumulated amortization for a net amount of \$39,655,070. (Refer to Notes to Financial Statements No. 6).

San Benito County Water District Condensed Statement of Capital Assets For the years ended June 30, 2016 and 2015

	2016	2015	Change	
			Amount	Percent
Water rights				
Semitropic Water Storage	\$ 520,946	\$ 487,871	\$ 33,075	6.8%
Central Valley Project	7,596,132	6,712,327	883,805	13.2%
San Justo Reservoir	235,731	-	235,731	100.0%
Wright Rd Pipeline	830,850	-	830,850	100.0%
Reach 1 capital improvement	5,878,755	5,805,309	73,446	1.3%
Source of supply plant	3,024,047	2,972,493	51,554	1.7%
Transmission and distribution plant	20,242,075	18,259,570	1,982,505	10.9%
Pumping plant	10,190,763	10,190,763	-	0.0%
General plant	1,390,863	1,390,863	-	0.0%
Treatment plant	10,567,603	10,556,238	11,365	0.1%
Land and land rights	821,639	821,639	-	0.0%
Total capital assets	61,299,404	57,197,073	4,102,331	7%
(Accumulated amortization)	(2,372,790)	(1,818,922)	(553,868)	30.5%
(Accumulated depreciation)	(19,271,544)	(18,192,304)	(1,079,240)	5.9%
Net capital assets	\$ 39,655,070	\$ 37,185,847	\$ 2,469,223	6.6%

San Benito County Water District

Management's Discussion And Analysis
June 30, 2016

Long Term Debt

During the fiscal year, the District obtained financing for capital improvements related to the HUWSTA and the Recycled Water projects for a total of \$5,500,000. At the end of this fiscal year, the District's remaining obligation for this loan was \$5,355,867. Additional information on the District's long term debt can be found in Note 8 on page 30 of this report.

San Benito County Water District
Condensed Statement of Long Term Debt
For the years ended June 30, 2016 and 2015

	June 30,	June 30,	Change	
	2016	2015	Amount	Percent
City National Bank loan payable	\$ 5,355,867	\$ -	\$ 5,355,867	100%

Deferred Outflows of Resources & Deferred Inflows of Resources

At the end of the fiscal year 2016, the District had \$478,988 of Deferred Outflows of Resources and \$213,806 of Deferred Inflows of Resources. Deferred Outflows of Resources increased by \$261,118 and Deferred Inflows of Resources decreased by \$252,236 over the prior year. The changes were related changes in assumptions, expected and actual experience, changes in proportion and pension contribution to the District's pension plan. Additional information on the District's pension plan can be found in Note 10.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

General Property Tax Revenue

The District expects the general property tax revenue and the San Felipe land tax to remain at a similar level as fiscal year 2015-2016.

Interest Rates

The current economic environment has seen historically low interest rates. District investment income is affected by these lower rates and will be considered in the budgeting process.

Review of Zone 6 Rates and Charges

The Zone 6 process for the review of rates and charges and development of the annual budget considers the impact of the following:

1) Proposition 218

Agencies are subject to a statutory landowner notification and protest process for any rate increases. The District complies with this requirement. Revenue would be impacted in the event of a successful majority protest of rates by landowners. Rates have been approved for Zone 6 San Felipe water through water year 2018-2019 as part of a three year rate structure. Recycled Water rates have been approved through water year 2017-2018. Groundwater rates are subject to renewal in March 2017.

2) San Felipe Project, Reach 1

The District, in conjunction with the Santa Clara Valley Water District (SCVWD) has current and future financial obligations for the operation and maintenance costs of the San Felipe Project, Reach 1 facilities (all facilities from Pacheco Pumping Plant at San Luis Reservoir to the bifurcation structure at Casa de Fruta). In 2007, the District and the Santa Clara Valley Water District negotiated an agreement with the intent to clarify the business relationship between the two entities as it relates to the operations and maintenance of the Reach 1 facilities. This agreement provided for a review of the current conditions of the facilities, definition of a standard for operating conditions, and development of a program to keep the facilities at that standard on an ongoing basis.

San Benito County Water District

Management's Discussion And Analysis

June 30, 2016

The facilities review identified the need for major repair of the Pacheco pumping regulating tank, and Pacheco communication cable, rebuilding of several pumps (pumps described in the Statistical Section-Facilities), and replacement of the adjustable speed drives on 12 pumps. SCVWD has moved forward to implement these projects and other capital projects associated with Reach 1. At fiscal year-end 2016, the District has contributed close to \$5.9 million toward these projects. All previously identified major maintenance projects have been substantially completed. Subsequently, SCVWD has identified the need to do a condition assessment of the Pacheco Conduit and possibly repair sections of the pipe that need rehabilitation. The project is expected to cost \$8.9 million, of which SBCWD would be responsible for \$2.0 million. SCVWD has developed a comprehensive asset management plan for the ongoing maintenance and repair of the San Felipe Facilities. This asset management plan includes a schedule of future capital projects. The cost of the ongoing maintenance and repair and capital projects is considered in the budgeting and rate setting process.

3) United States Bureau of Reclamation Central Valley Project Water Allocations

Annually, in mid-February, the United States Bureau of Reclamation specifies to each of the contractors in the Central Valley Project (CVP), the initial percentage of their water contract that will be delivered in the upcoming water year. In past recent years, due to the pumping restrictions in the Delta for the protection of endangered species and physical drought in the State, water delivery allocations had been reduced. Due to dry weather conditions, the water year that spans from March 2016 to February 2017, had allocations at 5% of contract for Agricultural users and 55% of historical use for Municipal and Industrial (M&I) users. For water year 2016-2017 the District was able to secure some additional water through transfer arrangements. 2017-2018 water allocations are expected to be in the range of 0%-20% for Agricultural and 50%-70% of historical use for M&I. Because of the decrease in volume in the past several years, costs have to be spread over fewer acre feet of delivered water. The District includes consideration of these volumes in its rate reviews. The District was able to secure an increase in its historical use calculation to the full contract amount (8,250 acre feet) for the benefit of the Hollister Urban Area project.

4) Zone 6 Groundwater Rates and San Felipe Distribution Rates

Rate base for groundwater rates include the costs associated with managing the groundwater basin and the costs associated with percolation. Anticipated projects and program costs to address groundwater issues and other surface and groundwater management initiatives, including the Sustainable Groundwater Management Act (effective January 2016) are expected to be included in future rates and charges review.

San Felipe water rates are based on the operations and maintenance costs associated with the delivery of San Felipe water. These costs include the District's share of the operations and maintenance costs for the United States Bureau of Reclamation Central Valley Project, the San Luis Delta Mendota Water Authority, and the San Felipe Reach 1 facility maintained by the Santa Clara Valley Water District as well as the District's own operation and maintenance costs. Current rates do not fully recover these operating expenses. The District aims to recover as much of the operating expense as possible through rates, however, given the reduction in volume of water available through the Central Valley Project, the coverage ratio is subject to variability. Consideration of cost recovery from rates is included in the rates and charges review. Water rates are expected to increase significantly until water allocations return to near normal levels.

5) CVP Cost Allocation Study

The United States Bureau of Reclamation is developing a new cost allocation for the CVP. The last major cost allocation of the CVP was completed in 1970, with a minor update in 1975. Since that time, the 1975 allocation has been subject to minimal annual adjustments related to project water and power uses. The new cost allocation will replace the 1975 cost allocation in its entirety. The study is scheduled to be completed in the next several years once USBR has completed their process. Any changes to the cost allocation will be incorporated into the budget and rates.

San Benito County Water District

Management's Discussion And Analysis June 30, 2016

process. Any changes to the cost allocation will be incorporated into the budget and rates.

6) CVP San Luis Energy Transmission Project

CVP Project Use Energy (PUE) contracts with PG&E provided favorable transmission rates for power which expired in 2015. San Luis Delta Mendota Water Agency (SLDMWA) is working on a project to build a transmission line for Tracy and Gianneli Pumping Plants. Power rates are expected to increase beyond current levels but the project will deliver power at a lower cost than the alternative of wheeling through PG&E. In the shorter term, power rates have increased due to the lower volume of water over which the fixed costs are spread.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the District's Assistant Manager.

The board meets in regular session at 6:00 p.m. on the last Wednesday of each month. Meetings are held in the Board Room at the San Benito County Water District Office, 30 Mansfield Road, Hollister, California.

San Benito County Water District
30 Mansfield Rd.
P.O. Box 899
Hollister, CA 95024
Phone: (831) 637-8218
Fax: (831) 637-7267
www.sbcwd.com

San Benito County Water District
Statement of Net Position
June 30, 2016
(with prior year data for comparison purposes only)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,657,521	\$ 12,770,324
Investments	2,008,038	-
Receivables, net	2,769,162	4,890,786
Contract receivable	905,625	662,340
Prepaid expenses	905,669	448,122
Restricted cash and cash equivalents	22,223,966	28,132,497
Total current assets	48,469,981	46,904,069
Noncurrent assets:		
Investments	-	2,000,000
Work in progress	20,407,751	10,788,929
Contract receivable	26,901,517	23,929,646
Capital assets		
Water rights, net	12,689,624	6,294,804
Depreciable, net	26,143,807	30,069,404
Nondepreciable	821,639	821,639
Total noncurrent assets	86,964,338	73,904,422
Total assets	135,434,319	120,808,491
Deferred outflows of resources		
Deferred pensions	478,988	217,870
Total deferred outflows of resources	478,988	217,870

See accompanying notes to basic financial statements

San Benito County Water District
Statement of Net Position (continued)
June 30, 2016
(with prior year data for comparison purposes only)

	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	3,976,492	608,998
Accrued wages and benefits	82,574	64,064
Accrued vacation and sick	176,827	237,780
City National Bank loan payable	295,249	-
Due to other agencies	648,206	558,781
Contract customer water prepayments	389,444	18,748
Unearned contract revenue	905,625	662,340
Total current liabilities	6,474,417	2,150,711
Noncurrent liabilities:		
Other post employment benefits	312,504	258,191
Pension liability	1,718,231	1,318,536
Deposits and retention payable	251,528	238,888
City National Bank loan payable	5,060,618	-
Unearned contract revenue	26,901,517	23,929,646
Total noncurrent liabilities	34,244,398	25,745,261
Total liabilities	40,718,815	27,895,972
Deferred inflows of resources		
Deferred pensions	213,806	466,042
Total deferred inflows of resources	213,806	466,042
NET POSITION		
Net investment in capital assets	39,655,070	37,185,847
Restricted		
Revolving fund reserve requirement	75,000	75,000
Operation and maintenance reserves	2,972,428	2,238,377
Contract repayment reserves	6,025,316	4,179,054
Contract construction reserves	12,610,956	21,291,309
Contract replacement reserves	540,266	348,757
Unrestricted	33,101,650	27,346,003
Total net position	\$ 94,980,686	\$ 92,664,347

See accompanying notes to basic financial statements

San Benito County Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016
(with prior year data for comparison purposes only)

	2016	2015
Operating revenue	\$ 5,714,866	\$ 2,843,275
Operating expenses:		
Cost of water	4,697,854	1,872,250
Wages and employee related expenses	2,084,974	2,748,269
Contract services	1,469,829	1,165,888
Material and equipment	158,580	186,493
General and administrative	233,644	179,793
Utility expenses	302,785	272,634
Depreciation and amortization	1,633,108	1,114,107
Total operating expenses	10,580,774	7,539,434
Operating income (loss)	(4,865,908)	(4,696,159)
Nonoperating revenue (expenses):		
Taxes and assessments	6,789,691	6,359,153
Grant revenue	1,722,454	4,086,989
Other nonoperating revenues	258,541	225,935
Interest and investment revenues	193,973	114,279
Investment gain or loss	10,467	(719)
Interest expense	(88,419)	(1,462)
Capital contributions to other government	-	(724,648)
Other nonoperating expenses	(1,704,460)	(71,701)
Net nonoperating revenue (expenses)	7,182,247	9,987,826
Income before capital contribution	2,316,339	5,291,667
Capital contribution:		
Capital contributions	-	250,000
Change in net position	2,316,339	5,541,667
Net position, beginning of year	92,664,347	88,749,842
Prior period adjustment related to pension liabilities	-	(1,627,162)
Net position, end of year	\$ 94,980,686	\$ 92,664,347

See accompanying notes to basic financial statements

San Benito County Water District
Statement of Cash Flows
For The Year Ended June 30, 2016
(with prior year data for comparison purposes only)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from operations	\$ 5,772,384	\$ 2,675,099
Cash received from agencies - fee income	170,462	64,685
Cash received from rental activity	21,725	20,700
Cash payments to suppliers for operations	(5,322,318)	(5,153,337)
Cash payments to employees for services and related expenses	(2,184,102)	(2,316,169)
Cash payments for general and administrative expenses	(241,807)	(182,540)
Cash payments to other agencies	(89,425)	(55,547)
Net Cash Provided by (Used for) Operating Activities	(1,873,081)	(4,947,109)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Taxes and assessments collected	6,686,797	6,512,409
Grant revenue	240,690	181,089
Net Cash Provided by (Used for) Non-Capital Financing Activities	6,927,487	6,693,498
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contribution of capital assets	-	(724,648)
Acquisition of capital assets	(2,232,736)	(4,642,619)
Additions to preliminary survey and construction in progress	(11,198,503)	(488,784)
Interest on long-term debt	(88,419)	-
Proceeds from capital borrowings	5,355,867	-
Capital grants	3,921,382	-
Net Cash Provided by (Used for) Capital and Related Financing Activities	(4,242,409)	(5,856,051)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received from cash and cash equivalents	158,631	101,370
Interest received from investments	8,038	3,908
Increase (decrease) in fair market value	-	2,310
Investment maturities (purchases), net	-	261,489
Net Cash Provided by (Used for) Investing Activities	166,669	369,077
Net Increase (Decrease) in Cash and Cash Equivalents	978,666	(3,740,585)
Balances, Beginning of Year		
Cash and cash equivalents	12,770,324	17,832,386
Restricted cash and cash equivalents	28,132,497	26,811,020
Balances, Beginning of Year	40,902,821	44,643,406
Balances, End of Year	\$ 41,881,487	\$40,902,821

See accompanying notes to basic financial statements

San Benito County Water District
Statement of Cash Flows
For the Year Ended June 30, 2016
(with prior year data for comparison purposes only)

	2016	2015
RECONCILIATION TO STATEMENT OF NET POSITION:		
Unrestricted cash and cash equivalents	\$ 19,657,521	\$12,770,324
Restricted cash and cash equivalents	22,223,966	28,132,497
Total Cash and Restricted Cash	\$ 41,881,487	\$40,902,821
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (4,865,908)	\$ (4,696,159)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,633,108	1,114,107
Cost of water - operation and maintenance amortization	-	271,652
Provision for allowance of doubtful accounts	11,313	4,785
Change in deferred outflow and inflow	(513,354)	(60,447)
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivables	(147,397)	(101,162)
(Increase) decrease in contract receivable	(3,215,156)	(13,739,309)
(Increase) decrease in prepaid expenses	(457,547)	438,427
Increase (decrease) in payables and accrued expenses	1,669,142	(1,958,080)
Increase (decrease) in accrued wages and benefits	(39,782)	23,080
Increase (decrease) in other post employment benefits	54,313	57,003
Increase (decrease) in pension liabilities	399,695	-
Increase (decrease) in deposits and retention payable	12,640	119,653
Increase (decrease) in customer water prepayments	370,696	(159,968)
Increase (decrease) in unearned contract revenue	3,215,156	13,739,309
Totals	\$ (1,873,081)	\$ (4,947,109)
Contributed capital in the form of donated assets	\$ -	\$ 250,000

See accompanying notes to basic financial statements

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The San Benito County Water District (District) is a water conservation and flood control district governed by the San Benito County Water Conservation and Flood Control Act codified as Appendix 70 of the California Water Code.

The District is an independent and autonomous agency, governed by a five member Board of Directors directly elected by electors in five divisions. The boundaries of each division are coterminous with those of the supervisory districts of the County. A director must be a resident of and a registered voter in the division they represent.

District zones are not distinct or separate units of government from the District and the financial operations and activities related to those zones of benefits are included within the District's financial statements as one legal entity. No separate financial statements are prepared for the individual zones of benefits.

The accompanying supplementary information to the District's Financial Statements includes the financial activities of the District Administration (Zone 1), San Benito River System (Zone 3), San Felipe Project (Zone 6) and Fairview Road Water System (Zone 104). These zones were formed to undertake projects and provide water supply and related benefits to specific geographic areas within the District.

B. Basis of Accounting

The District's single enterprise fund (a business-type activity) is accounted for using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when they are incurred.

C. Basis of Presentation and Measurement Focus

The District's single enterprise fund is accounted for on a cost of service or "economic resources" measurement focus. This means that assets and all activities are included on the statement of net assets. Operating statements present increases (revenues) and decreases (expenses) in net total assets. The financial statements distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services for delivering water. Operating expenses include the cost of sales and services, general and administrative expenses and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. Non-operating revenues include revenues from taxes and assessments that are general purpose and/or special purpose in nature.

D. Budgets

The District's Board of Directors annually adopts a capital and an operating budget for the ensuing fiscal year effective July 1 as a financial plan for the year. The budget is adopted by the governing Board as an operating plan. Although there is no legal requirement to report budgetary basis financial information in this report, the District's Board of Directors review performance to budget on a quarterly basis.

E. Joint Powers Agreements

The District is a participant in the Association of California Water Agencies, Joint Powers Insurance Authority (ACWA/JPIA) for the purpose of obtaining property and liability insurance. The District also participates in the San Luis Delta-Mendota Water Authority (SLDMWA) for the purposes of operating and maintaining a portion of the Central Valley Project.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

F. New Accounting Pronouncements

The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements for certain accounting and financial reporting guidance.

The District implemented the following statements for the year ended June 30, 2016:

- ◆ GASB Statement No. 72, *Fair Value Measurement and Application*, effective for reporting periods beginning after June 15, 2015. The District has implemented the provisions of this statement as of June 30, 2016.
- ◆ GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No.68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*, effective for reporting periods beginning after June 15, 2015. This statement has no financial effect on these financial statements, as the District is within the scope of GASB No. 68.
- ◆ GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for reporting periods beginning after June 15, 2015. The District has implemented the provisions of this statement as of June 30, 2016.
- ◆ GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for reporting periods beginning after December 15, 2015. The Statement does not apply to the District.

Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- ◆ GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for reporting periods beginning after June 15, 2016. The District has not determined the effect of the statement.
- ◆ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for reporting periods beginning after June 15, 2017. The District has not determined the effect of the statement.
- ◆ GASB Statement No. 77, *Tax Abatement Disclosures*, effective for reporting periods beginning after December 15, 2015. The District has not determined the effect of the statement.
- ◆ GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for reporting periods beginning after December 15, 2015. The District has not determined the effect of the statement.
- ◆ GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB No. 14*, effective for reporting periods beginning after June 15, 2016. The District has not determined the effect of the statement.
- ◆ GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for reporting periods beginning after December 15, 2016. The District has not determined the effect of the statement.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

- ◆ GASB Statement No. 82, *Pensions Issues-an amendment of GASB Statement No. 67, No. 68, and No. 73*, effective for reporting periods beginning after June 15, 2016. Except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The District has not determined the effect of the statement.

G. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The short-term investments include the California Local Agency Investment Fund which has been authorized by the District investment policy and State law.

For purposes of determining cash equivalents, the District has defined its policy concerning the treatment of short-term investments to include investments with a maturity of three months or less when purchased, as cash equivalents if management does not plan to reinvest the proceeds. Short-term investments that management intends to rollover into similar investments are considered part of the investment portfolio and are classified as investments.

H. Investments

All investments are stated at fair value, except for money market investments which have a remaining maturity of less than one year when purchased, which are stated at amortized costs.

Under the provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the following investments are authorized:

- ◆ U.S. Treasury Obligations, or Federal Agency Securities
- ◆ FDIC Insured Certificates of Deposit
- ◆ Fully Collateralized Certificates of Deposit
- ◆ Commercial Paper, (rated in highest short-term ratings category)
- ◆ California's Local Agency Investment Fund
- ◆ Securities of the State of California, its agencies, or any local agency within the state
- ◆ Medium term corporate notes (rated "A" or better)
- ◆ Negotiable Certificates of Deposit (rated "A" or better)
- ◆ Shares of beneficial interest issued by diversified management companies that are money market funds registered with Securities and Exchange Commission (highest rating by at least 2 rating organizations)
- ◆ Registered Treasury Notes or Bonds of any of the other remaining 49 states
- ◆ Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7

Investments of the District are secured with third-party custodians.

I. Restricted Cash

Restricted cash represents allocations of cash that are a statutory or contractual requirement. The District has established various accounts to provide for specific activities in accordance with special regulations and restrictions placed by contracts, laws or regulations of other governments. Specific detail on source of restrictions is provided in Note 9 – Net Position. Restricted resources are used first to fund expenses incurred.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

J. Receivables

Receivables include amounts due from water utility customers as well as amounts due from property taxes, contracts, interest and other receivables. An allowance for doubtful accounts is made annually.

K. Prepaid Expenses

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

L. Work in Progress

Work in progress consist of costs associated with preliminary survey and investigation, construction in progress and other works in progress including the District's share of participation in multi-agency projects. These include costs incurred for the purpose of determining the feasibility of projects under contemplation. If construction results, the costs are capitalized and depreciated at the completion of construction in accordance with the District's Capital Asset Policy. If the work does not move forward to a capital project, the costs are expensed.

M. Capital Assets

Capital assets are defined by the District as property with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets with high portability (computer equipment, furniture and shop equipment) are considered for capitalization at an individual cost of more than \$2,500.

Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives. Assets that were placed in service during any fiscal year begin depreciation on the first day of the next fiscal year.

The estimated useful lives are as follows:

Source of supply plant	25 - 75 Years
Transmission and distribution plant	20 - 75 Years
Pumping plant	7 - 10 Years
Treatment Plant	7 - 25 Years
General plant	5 - 10 Years

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Maintenance and repairs are charged to operations when incurred.

Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

The purpose of depreciation is to spread the cost of capital assets equitably among all beneficiaries over the life of these assets, so that each landowner's/customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, are charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets as a reduction in the book value of the capital assets.

San Benito County Water District

Notes to Basic Financial Statements

June 30, 2016

N. Amortization

The District has contracted with the United States Bureau of Reclamation (USBR) for water service and for operation and maintenance of certain works of the San Felipe Division of the federal Central Valley Project (CVP). A portion of the payments under this contract represent repayment of the capital cost associated with the San Felipe Division. The capital component is capitalized as Water Rights at the time it is paid and amortized using the straight-line method, over the remaining entitlement period. Current interest on this contract is expensed as it is paid and recorded in Cost of Water.

Capital projects related to the operations and maintenance of the San Felipe Division Reach I are capitalized and the associated costs are amortized using the straight-line method, over the estimated useful life of the asset.

O. Water Rights

The District participates in various water storage and water rights agreements for imported surface water. These agreements are included in capital assets as water rights.

P. Accrued Vacation and Sick Leave Pay

The District's employment policy provides for the accumulation of earned vacation leave and vested sick leave. Due to the limited number of employees, the District has elected not to conduct actuarial assessments of sick leave. Vested or accumulated vacation and sick leave are recognized as an expense and a liability at the time the benefit vests. Accrued vacation and sick leave are reported as current liabilities on the statement of net position.

Q. Public Employees Retirement System

The District offers 2 retirement plans to its employees. Employees hired before January 1, 2013 are members of the CalPERS Classic Plan and employees hired after January 1, 2013 are members of the California Public Employees' Pension Reform Act Plan (PEPRA Plan).

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expenses, information about the fiduciary net position of the San Benito County Water District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS finance office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 10 for the CalPERS Classic Plan disclosures.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

R. Fair Value Measurements

The District has applied Governmental Accounting Standards Board (GASB), *Statement No. 72, Fair Value Measurement and Application*. GASB Statement No. 72 provide guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are describe as follows:

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

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

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

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

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

S. Claims and Judgments

An estimated loss is recorded, net of insurance coverage, and inclusive of an estimate for incurred but unreported claims, when it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated.

T. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The District has only one item that qualifies for reporting as a deferred outflow as described further in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting as a deferred inflow as described further in Note 10.

U. Net Position

The statement of net position reports all financial and capital resources. The difference between assets and liabilities is net position. The three components of net position are:

Net investment in capital assets, net of related debt – This component of net position consists of capital assets, including infrastructure, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. The District has no debt attributable to capital assets.

Restricted – This component of net position consists of constraints placed on the use of net positions by external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

Unrestricted – This category represents net positions of the District that do not meet the definition of "Restricted net position" or "Net investment in capital assets, net of related debt."

V. Operating Revenue Recognition

Revenue from water sales is based on customer usage which is recognized on a monthly basis or when the customer is contractually obligated to pay, whichever comes first. Well permitting and other operating revenues are recognized at the time the service is provided.

W. Property Taxes and Assessments

Property taxes and assessments are collected by the County of San Benito and are payable by the taxpayer in two installments each year. The District recognizes property taxes and assessments as non-operating revenue in the fiscal year of levy.

The District levies the following voter-approved taxes and assessments:

- ◆ A land tax on behalf of San Felipe Division of the Central Valley Project (Zone 6). This tax is a per annum assessment based on the assessed valuation of land for properties within Zone 6.
- ◆ A standby charge for the availability of service from the San Felipe Distribution system on properties in the area of Zone 6 served by the pressurized distribution system. This per-acre charge is established annually by the Board of Directors.
- ◆ Special assessments on the properties in the Fairview Road Water System (Zone 104) for a Well Improvement Project
- ◆ In addition to special purpose taxes and assessments, the District receives a portion of the County of San Benito general purpose tax, which is allocated to the District by the County.

X. Grants

In the normal course of operations, the District receives grant funds from Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

Y. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Z. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

AA. Comparative Prior Year Financial Information

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

BB. Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's financial statement presentation.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and cash equivalents	\$ 19,657,521
Restricted cash and cash equivalents	22,223,966
Current investments	<u>2,008,038</u>
Total cash and investments	<u><u>\$ 43,889,525</u></u>

The bank balance and carrying value of the District's cash and investments, including restricted and designated balances, at June 30, 2016 were as follows:

	Restricted	Designated	Undesignated Unrestricted	Total
Petty Cash	\$ -	\$ -	\$ 200	\$ 200
Union Bank of California	-	-	103,691	103,691
Local Agency Investment Fund	21,706,575	11,741,828	7,811,802	41,260,205
Heritage Bank of Commerce	-	-	2,008,038	2,008,038
Santa Clara Valley Water District (San Felipe- Reach 1 Reserve)	517,391	-	-	517,391
Total	<u>\$ 22,223,966</u>	<u>\$ 11,741,828</u>	<u>\$ 9,923,731</u>	<u>\$ 43,889,525</u>

Cash balances held in banks are qualified as "public funds"; these funds must be FDIC insured or collateralized by the Depository at a rate of 110%, and comply in all aspects with the provisions of Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code.

The book balance for Union Bank of California at June 30, 2016 was \$103,691. At June 30, 2016, the bank balances in financial institutions totaled \$604,772. The book balance and bank balance differ by \$501,081 due to deposits in transit, outstanding checks, and net finance charges. Accounts at the bank are insured by the Federal Deposit Insurance Corporation (FDIC). At times during the year, the balances at this institution may exceed the FDIC insurance level. Accounts are redeemable upon demand and, therefore, bear minimal risk.

As of June 30, 2016, the District had the following cash and investment maturities:

	Fair Value	Cost	0-3 Months	4-12 Months
Petty cash	\$ 200	\$ 200	\$ 200	\$ -
Union Bank of California	103,691	103,691	103,691	-
Local Agency Investment Fund	41,260,205	41,234,590	41,260,205	-
Heritage Bank of Commerce	2,008,038	2,008,038	-	2,008,038
Santa Clara Valley Water District	517,391	517,391	517,391	-
Total	<u>\$ 43,889,525</u>	<u>\$ 43,863,910</u>	<u>\$ 41,881,487</u>	<u>\$ 2,008,038</u>

Investments

The District has an investment policy that is overseen by the Investment Committee of the Board of Directors. The investment policy conforms to state law and guidelines and is based on prudent money management principles and practices.

San Benito County Water District

Notes to Basic Financial Statements

June 30, 2016

Interest Rate Risk

Interest 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. As a means of limiting exposure to fair value losses arising from rising interest rates, the District's investment policy limits the maturity of investments not to exceed 5 years without authorization by the Board of Directors at least 3 months prior to the investment.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding table that shows the distribution of the District's investment by maturity.

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments represent a concentration. At fiscal year end, the District had no concentration of credit risk investments.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the District and that the District will not be able to recover the value of its investments or collateral securities. Credit risk is mitigated by investing only in U.S. Treasury Obligations, Federal Agency securities and in other high-quality investments, and by diversifying the portfolio so that the failure of any issuer would not unduly harm the District's cash flow. The District diversifies its investments by security type and institution.

As of June 30, 2016, the District's investments with the Local Agency Investment Fund and Heritage Bank were not categorized as to custodial credit risk. The restricted cash for San Felipe Reach 1 Reserve of \$517,391 is held by Santa Clara Valley Water District within its General Fund.

All of the District's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institution in the District's name.

Summarized below are the ratings of the District's cash and investments:

Issuers	Fair Value	S&P	Moody's	Veribanc, Inc.	% of Total
Local Agency Investment Fund	\$ 41,260,205	NR	NR	NR	94.0%
Union Bank	103,691	A+/A-1	A2/P-1	Green/***	0.2%
Heritage Bank	2,008,038	NR	NR	Green/***/BB	4.6%
Santa Clara Valley Water District	517,391	NR	NR	NR	1.2%
Total	\$ 43,889,325				100.0%

*NR - denotes Not Rated

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 the pool is reported in the accompanying financial statements at amounts based upon the entity'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. Although the average life of the LAIF portfolio at fiscal year-end was 167 days, under LAIF's policy the District can withdraw all its funds with 24 hour notice.

San Benito County Water District

Notes to Basic Financial Statements

June 30, 2016

Other Investments

The District purchased a 12-month Certificate of Deposit with Heritage Bank of Commerce in the amount of \$2,008,038. This certificate of deposit has a one year maturity with automatic renewal unless the District provides notice to withdraw funds timely. The District must maintain a minimum balance of \$2,500 and may make two withdrawals without penalty during the term.

Disclosures Related to Fair Value Measurement

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three tiered fair value hierarchy as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

At June 30, 2016, the District had the following recurring fair value measurements:

	June 30, 2016	Fair Value Measurement Using			
		Level 1	Level 2	Level 3	Uncategorized
Investments by Fair Value Level					
Leveled investment total	\$ -	\$ -	\$ -	\$ -	\$ -
Time Certificate of Deposit	2,008,038	-	-	-	2,008,038
Local Agency Investment Fund (LAIF)	41,260,205	-	-	-	41,260,205
Uncategorized investment total	43,268,243	-	-	-	43,268,243
Total Investments	<u>\$43,268,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$43,268,243</u>

Investments in nonparticipating interest-earning contracts (such as nonnegotiable certificate of deposit) are measured using the cost-based measure. Deposits and withdrawals in the State Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the District's investments in LAIF at June 30, 2016, of \$41.26 million are uncategorized input not defined as Level 1, Level 2, or Level 3 input.

3. RECEIVABLES

Receivables at June 30, 2016 consisted of the following:

Water utility customer receivables, net of allowance	\$ 151,131
Other operating receivables	8,650
Interest receivables	58,789
Property tax and assessment receivables	115,053
Grant receivables	1,842,784
Agency receivables	592,755
Total receivables, net	<u>\$ 2,769,162</u>

The Water Utility Customer receivables above reflect an allowance for doubtful accounts in the amount of \$15,937.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

Grant receivables include Proposition 13 and Proposition 84 grant funding in support of the Recycled Water Project (RWP) and the HUWSTA. The District's RWP was also recommended by the Department of Water Resources to be included as one of the projects to receive \$1.1 million in state emergency drought grant funds. This grant is administered by Pajaro Valley Water Management Agency (PVWMA) and all District costs associated to the project are submitted to DWR through a sub-agreement with PVWMA.

Agency receivables are reimbursements due from other agencies for shared expenses per cooperative memorandum of understandings related to projects and grants. These receivables represent the expenses for the fiscal year ended June 30, 2016, and are expected to be reimbursed in the next fiscal year.

4. CONTRACT RECEIVABLE

In August 2013, the District, Sunnyslope County Water District (SSCWD) and City of Hollister (COH) each approved the Hollister Urban Area Water Supply and Treatment Agreement (HUWSTA). The agreement defines the roles and terms of financing for the project which includes the upgrade of Lessalt Water Treatment Plant, the design and construction of the West Hills Water Treatment Plant and associated pipelines. The District will finance, build, own and operate the upgraded Lessalt Water Treatment Plant and the new West Hills Water Treatment Plant.

The District committed to finance up to \$30 million dollars of the project costs. Of such costs, the District is contributing \$10 million in non-reimbursable funds, of which \$4 million was made available for the first tranche of financing and \$6 million was made available for the second tranche of financing. COH opted to use their share of the non-reimbursable funds to buy down the capital component. SSCWD used their share as rate stabilization which is being applied to the finished water payments. The District funded the first tranche of \$13 million dollars on the effective date of the agreement. The second tranche of \$17 million dollars was made available in May 1, 2015, to support the execution of a contract for construction of the West Hills Water Treatment Plant. In January, 2016, the third tranche of financing for \$4 million was funded through a loan agreement with City National Bank.

The agreement calls for the District to recover this investment in the capital projects from the COH and SSCWD over a 15-30 year period through a capital component, including interest, in the finished water rate. At June 30, 2016, the capital component is \$27,807,142. The current portion of the contract is \$905,625 and is reflected in current assets. The noncurrent portion of \$26,901,517 is reflected in noncurrent assets. The unearned portion of the contract is included as unearned contract revenue.

5. WORK IN PROGRESS

The District's work in progress are the accumulated costs associated with the preliminary survey and investigation, construction in progress and other works in progress, including the District's portion of multi-agency projects. The District actively pursues grant funding for major projects. If applicable, grant proceeds associated with the following projects are reflected in non-operating revenue in the year in which the associated expense occurred.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

The work in progress at June 30, 2016 consisted of the following:

Preliminary survey and investigations:

Hollister Urban Area Water and Wastewater Master Plan projects	\$ 1,576,525
Pajaro Watershed Integrated Regional Water Management Plan	149,779
Delta related programs through San Luis Delta Mendota Water District	1,466,895
Zebra Mussel Control Study related to the Hollister Conduit	138,005
Other projects	4,692
	3,335,896

Construction in progress

Treatment plants	16,773,921
Recycled Water Project	297,934
	17,071,855

Total work in progress

\$ 20,407,751

6. CAPITAL ASSETS

The changes in capital assets of the District for the year ended June 30, 2016 are summarized as follows:

	Balance as of June 30, 2015	Current Year Activity		Balance as of June 30, 2016
		Additions	Dispositions	
Water rights				
Semitropic Water Storage	\$ 487,871	\$ 33,075	\$ -	\$ 520,946
Central Valley Project	6,712,327	883,805	-	7,596,132
San Justo Reservoir	-	235,731	-	235,731
Wright Rd Pipeline	-	830,850	-	830,850
Reach 1 capital improvement	5,805,309	73,446	-	5,878,755
Depreciable capital assets				
Source of supply plant	2,972,493	51,554	-	3,024,047
Transmission and distribution plant	18,259,570	1,982,505	-	20,242,075
Pumping plant	10,190,763	-	-	10,190,763
General plant	1,390,863	-	-	1,390,863
Treatment plant	10,556,238	11,365	-	10,567,603
Non-depreciable capital assets				
Land and land rights	821,639	-	-	821,639
Total capital assets	57,197,073	4,102,331	-	61,299,404
(Accumulated amortization)	(1,818,922)	(553,868)	-	(2,372,790)
(Accumulated depreciation)	(18,192,304)	(1,079,240)	-	(19,271,544)
Net capital assets	\$ 37,185,847	\$ 2,469,223	\$ -	\$ 39,655,070

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

Amortization and depreciation expense was charged to projects for the year ended June 30, 2016 as follows:

	Balance as of June 30, 2015	Current Year Activity		Balance as of June 30, 2016
		Increase	Decrease	
Amortization				
Water Rights				
Central Valley Project	\$ (905,395)	\$ (264,079)	\$ -	\$ (1,169,474)
Reach 1 capital improvement	(913,527)	(289,789)	-	(1,203,316)
Total amortization	<u>(1,818,922)</u>	<u>(553,868)</u>	-	<u>(2,372,790)</u>
Depreciation				
Source of supply plant	(1,521,602)	(48,263)	-	(1,569,865)
Transmission and distribution plant	(8,742,739)	(332,199)	-	(9,074,938)
Pumping plant	(6,541,546)	(248,606)	-	(6,790,152)
General plant	(990,668)	(48,881)	-	(1,039,549)
Treatment plant	(395,749)	(401,291)	-	(797,040)
Total depreciation	<u>(18,192,304)</u>	<u>(1,079,240)</u>	-	<u>(19,271,544)</u>
Net amortization and depreciation	<u>\$ (20,011,226)</u>	<u>\$ (1,633,108)</u>	<u>\$ -</u>	<u>\$ (21,644,334)</u>

7. INVESTMENT IN JOINT VENTURE

The District participates in two joint ventures under Joint Powers Agreements (JPA) with the Association of California Water Agencies and the San Luis Delta-Mendota Water Authority. The relationship between the District and the JPA's is such that the JPA's are not component units of the District for financial reporting purposes.

Association of California Water Agencies-Joint Powers Insurance Authority (ACWA-JPIA)

The ACWA-JPIA arranges for and provides property and liability insurance for its nearly 370 members. ACWA-JPIA is governed by a board consisting of a representative from each member district. The board controls the operations of ACWA-JPIA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in ACWA-JPIA. Separate financial statements of ACWA-JPIA can be obtained by request to Finance Department, 2100 Professional Drive, Roseville, CA 95661-3700.

San Luis Delta-Mendota Water Authority (SLDMWA)

The SLDMWA arranges for the operation and maintenance of a portion of the Central Valley Project for its 29 members. SLDMWA is governed by a board consisting of a representative from each member district. The board controls the operations of the SLDMWA, including selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the board. Each member district pays membership dues proportionate to their United States Bureau of Reclamation water contract entitlement and operation and maintenance costs based on commodity rates established by the SLDMWA. Separate financial statements of SLDMWA can be obtained at P.O. Box 2157, Los Banos, CA 93635.

San Benito County Water District

Notes to Basic Financial Statements
June 30, 2016

Condensed financial information of ACWA-JPIA and SLDMWA is as follows:

	09/30/15 <u>ACWA-JPIA</u>	02/28/13 <u>SLDMWA</u>
Total assets	\$ 194,775,717	\$ 71,593,669
Deferred Outflows of Resources	625,033	-
Total liabilities	(113,620,777)	(59,266,385)
Deferred Inflows of Resources	<u>(846,155)</u>	-
Net Assets	<u>\$ 80,933,818</u>	<u>\$ 12,327,284</u>
Total revenues	\$ 160,400,697	\$ 25,984,190
Total expenditures	<u>(164,195,428)</u>	<u>(38,157,137)</u>
Net increase (decrease)	<u>\$ (3,794,731)</u>	<u>\$ (12,172,947)</u>

8. LONG TERM LIABILITIES

The following is a summary of long term liabilities for the fiscal year ended June 30, 2016:

	June 30, <u>2015</u>	Increases	Decrease	June 30, <u>2016</u>	Due Within <u>One Year</u>
Long term liabilities					
City National bank loan payable	\$ -	\$ 5,500,000	\$ 144,133	\$ 5,355,867	\$ 295,249
Other post employment benefits	258,191	54,313	-	312,504	-
Pension liability	<u>1,318,536</u>	<u>399,695</u>	<u>-</u>	<u>1,718,231</u>	<u>-</u>
Total long term liabilities	<u>\$ 1,576,727</u>	<u>\$ 5,954,008</u>	<u>\$ 144,133</u>	<u>\$ 7,386,602</u>	<u>\$ 295,249</u>

The following is a summary of principal maturities of City National Bank loan debt as of June 30, 2016:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 295,249	\$ 167,868	\$ 463,117
2018	304,810	158,306	463,116
2019	314,682	148,435	463,117
2020	324,873	138,243	463,116
2021	335,395	127,722	463,117
2022-2026	1,847,114	468,470	2,315,584
2027-2031	<u>1,933,744</u>	<u>150,281</u>	<u>2,084,025</u>
Total	<u>\$ 5,355,867</u>	<u>\$ 1,359,325</u>	<u>\$ 6,715,192</u>

In December 2015, the District entered into a loan agreement with Municipal Finance Corporation for the amount of \$5,500,000. This loan was immediately transferred to City National Bank. The loan is payable in quarterly installments for a term of 15 years beginning April, 2016. The annual interest rate is 3.2% and is reflected as non-operating interest expense.

This financing is in support of capital projects related to the HUWSTA and Recycled Water. Repayment of the loan is from pledged future revenues. The outstanding principal balance at June 30, 2016 was \$5,355,867.

San Benito County Water District

Notes to Basic Financial Statements

June 30, 2016

The Other Post-Employment Benefits as required by GASB No. 45 is the employer's portion of medical insurance benefits for retirees from the San Benito County Water District. See Note 11 for further disclosure.

The Pension Liability as required by GASB No. 68 is the CalPERS Miscellaneous Plan's total pension liability based on entry age normal actuarial cost method less the plan's fiduciary net position. See Note 10 for further disclosure.

The Other Post-Employment Benefits and pension liability have no current amounts due within one year.

9. NET POSITION

Net position represents the difference between assets and liabilities. Designations of unrestricted net position represent the District Board of Director's intention for the use of resources. The net position amounts at June 30, 2016 were as follows:

Net investment in capital assets	\$ 39,655,070
Restricted:	
District Revolving Fund Reserve	75,000
Operation and Maintenance Reserves	
San Felipe-Hollister Conduit Reserve	250,000
San Felipe-Reach 1 Reserve	517,391
Reach 1 Major Repair - Replacement Reserve	2,205,037
USBR Contract Repayment - Rate Management Reserve	6,025,316
Hollister Urban Area Project Water Treatment Facilities - Construction Reserve	12,610,956
Hollister Urban Area Project Water Treatment Facilities - Replacement Reserve	540,266
Total restricted	<u>22,223,966</u>
Unrestricted:	
Designated	
Reserved for Operations	2,691,354
Reserved for Capital Asset Replacement	3,914,297
Reserved for Capital Improvements	3,740,866
Reserved for Retiree Medical	310,601
Reserved for Self-Insurance	100,000
Reserved for Water Supply Emergency	984,710
	<u>11,741,828</u>
Undesignated	<u>21,359,822</u>
Total unrestricted	<u>33,101,650</u>
Total net position	<u>\$ 94,980,686</u>

San Benito County Water District

Notes to Basic Financial Statements
June 30, 2016

Restricted Net Position

Net position is restricted when constraints placed on their use are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. They are also restricted if their use is constrained by law through constitutional provisions or enabling legislation. There are no net positions restricted by enabling legislation.

Restricted Net Position	Source of Restriction
District Revolving Fund Reserve	San Benito County Water Conservation and Flood Control District Act (Section 70-7).
San Felipe-Hollister Conduit Reserve	USBR Contract Central Valley Project-Contract Between the United States and San Benito County Water Conservation and Flood Control District for Water Service and for Operation and maintenance of Certain Works of the San Felipe Division (Contract # 8-07-20-W0130)
San Felipe-Reach 1 Reserve	USBR San Felipe Division-Contract for the Transfer of the Operation and Maintenance of Certain San Felipe Division Facilities (Contract # 6-07-20-X0290): United States, Santa Clara Valley Water District, and San Benito County Water Conservation and Flood Control District.
USBR Contract Repayment - Rate Management Reserve	Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities.
Reach 1 Major Repair and Replacement Reserve	Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities.
Hollister Urban Area Project Water Treatment Facilities	Hollister Urban Area Water Supply and Treatment Agreement between the San Benito County Water District, City of Hollister and Sunnyslope County Water District
Hollister Urban Area Project Water Treatment Facilities- Replacement Reserve	Hollister Urban Area Water Supply and Treatment Agreement between the San Benito County Water District, City of Hollister and Sunnyslope County Water District

10. EMPLOYEE RETIREMENT PLANS

A. General Information about the Pension Plan

Plan Description - All qualified employees are eligible to participate in the San Benito County Water District's (the District) Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment.

San Benito County Water District

Notes to Basic Financial Statements

June 30, 2016

The District's Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Classic	PERPA
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	2.5%	2.0%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	9.067%	6.237%

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members, PEPRA also effectively closed all existing active risk pools to new employees.

Contribution Description - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The District's contribution were as follows:

	Fiscal Year Paid		
	2015/16	2014/15	2013/14
Misc Classic	\$ 193,878	\$ 214,238	\$ 215,620
Misc PEPRA	5,797	3,632	-
	\$ 199,675	\$ 217,870	\$ 215,620

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the net pension liability as of June 30, 2016 and 2015 were as follows:

	Proportionate Share of Net Pension Liability	
	2015/16	2014/15
District's Miscellaneous Plan	\$ 1,718,231	\$ 1,318,536
Total Net Pension Liability	\$ 1,718,231	\$ 1,318,536

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions for all participating employers, actuarially determined.

San Benito County Water District

Notes to Basic Financial Statements

June 30, 2016

The District's proportionate share of the net pension liability as of June 30, 2016 and 2015 was as follows:

	Percentage Share of RiskPool		Change: Increase/(Decrease)
	6/30/2016	6/30/2015	
Measurement date	6/30/2015	6/30/2014	
Percentage of Risk Pool NPL	0.062630%	0.053350%	0.009280%
Percentage of Plan (PERF C) NPL	0.025033%	0.021190%	0.003843%

For the year ended June 30, 2016, the District recognized pension expense of \$116,363. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,964	\$ -
Changes of Assumptions	-	132,111
Net difference between projected and actual earnings on pension plan investments	-	66,229
Change in employer proportion	245,841	14,756
Difference between the employer's contribution and the employer's proportionate share of contributions	19,507	710
Pension contributions subsequent to measurement date	199,676	-
Total	\$ 478,988	\$ 213,806

\$199,676 reported as deferred outflows of resources to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflow of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows(Inflows) of Resources
2017	\$ (2,303)
2018	(2,832)
2019	(14,014)
2020	84,656
2021	-
Thereafter	-
Total	\$ 65,507

Actuarial Methods and Assumptions used to determine Total Pension Liability - For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial accounting valuation. The June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS's Membership Data for all Funds
Post Retirement Benefits Increase	Contract COLA upto 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

*The Mortality table used was developed based on CalPERS's specific data. The table include 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and requirement rates. The Experience Study report can be found on CalPERS' website under Forms and Publications.

Change of Assumption - GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculations is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as schedules in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

Amortization of Deferred Outflows and Deferred Inflows of Resources - Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the sources of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives (EARS�) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Deferred outflows of resources and deferred inflows of resources relating to Differences between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARS� of members provided with pensions through the Plan. The EARS� for PERF C for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of all active employees) by 122,410 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the proportionate share of the net pension liability of the District's Plan as of the Measurement Date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate +1% (8.50%)
Plan's net Pension Liability	\$ 2,813,795	\$ 1,718,231	\$ 813,715

Pension Plan Fiduciary Net Positions – Detailed information about each plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Subsequent Events – There were no subsequent events that would materially affect the results presented in this disclosure.

Deferred Compensation Plan

Employees of the District are eligible to participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code 457(b). Under the plan, employees may elect to defer a portion of their salaries before taxes.

San Benito County Water District

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June 30, 2016

The deferred compensation amount is not available for withdrawal by employees until termination of employment, death, disability, or financial hardship. Participants can elect to contribute up to 100% of their annual compensation, generally not to exceed limits established by the Internal Revenue Code.

The District has three deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Small Business Job Protection Act of 1996 requires the establishment of a trust or similar vehicle to ensure that the assets of the Deferred Compensation Plans under the Internal Revenue Code 457 are protected and used exclusively for the benefit of Plan participants and/or their beneficiaries.

The 457 Plan assets totaling \$1,176,339 at June 30, 2016, consists of investments in mutual funds.

Financial institutions that administer the District's 457 Plans are as follows:

Valic	\$ 37,328
Mass Mutual	822,202
CalPers	<u>316,809</u>
Total	<u>\$ 1,176,339</u>

11. POST-EMPLOYMENT BENEFITS

Plan Description and Eligibility

The District provides a post-employer retirement benefit to assist with future medical premium costs. The plan is in accordance with memoranda of understanding with employee groups and adoption by the Board of Directors. This benefit is for all full-time employees who have reached age 55, retire through a regular service retirement from CalPERS and have at least 10 years of service to the District.

Funding Policy

The District currently finances benefits on a pay-as-you-go basis. The District contributes to the cost of current year premiums for eligible retired plan members. Eligible retirees who have served the District are eligible for annual benefits based on the following table:

Years of Service	Age at Retirement (annual benefit)		
	55	60	65
10-14 years	\$1,200	\$1,560	\$2,340
15-19 years	\$1,620	\$2,160	\$3,240
20 + years	\$2,100	\$2,784	\$4,176

For fiscal year ended June 30, 2016 the District contributed \$15,012 to the plan.

San Benito County Water District

Notes to Basic Financial Statements
June 30, 2016

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed 30 years
Remaining amortization period at June 30, 2016	30
Interest rate assumptions	4.5%
Payroll inflation factor	2.75%
Annual required contribution	\$ 70,475
Interest on net OPEB obligation	11,619
Adjustment to annual required contributions	<u>(12,769)</u>
Annual OPEB expense	69,325
Contribution made	<u>(15,012)</u>
Increase in OPEB obligation	54,313
Net OPEB obligation at June 30, 2015	<u>258,191</u>
Net OPEB obligation at June 30, 2016	<u><u>\$ 312,504</u></u>

The District's annual OPEB cost for the year, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year ended June 30, 2016 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 52,284	\$ 9,444	18.1%	\$ 201,188
6/30/2015	69,579	12,576	18.1%	258,191
6/30/2016	69,325	15,012	21.7%	312,504

Funding Status and Funding Progress

As of March 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$543,346. The covered payroll (annual payroll of active employees covered by the plan) was \$1,890,041 and the ratio of the UAAL to the covered payroll was 28.75 percent. Although the plan has no segregated assets, the District does reserve resources for retiree health care costs. At June 30, 2016, the District's designated reserve balance was \$310,061.

San Benito County Water District

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

Actuarial Methods and Assumptions

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

In the March 1, 2015 actuarial valuation, “entry age normal” actuarial cost method was used to estimate the actuarial accrued liability and normal costs. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets or on the employer’s assets as appropriate and an annual healthcare cost trend rate of 2.5 percent. Both rates included a 3 percent inflation assumption. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization is 25 years as of the valuation date. The next actuarial evaluation will be done in March, 2018.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA).

The ACWA/JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. As part of this service, risk management guidelines are established and regularly reviewed by ACWA/JPIA. The District performance has been reviewed as satisfactory.

The District has a program of self-insurance for comprehensive and collision on the vehicles owned by the District. At June 30, 2016 self-insurance reserves were \$100,000.

The District has the following insurance policies:

Coverage	Deductible	Coverage Limit (in thousands)
General liability	None	\$2,000/\$9,000/\$20,000
Auto liability	None	\$2,000/\$9,000/\$20,000
Public officials liability	None	\$2,000/\$9,000/\$20,000
Property		
Buildings, personal property, and fixed equipment	\$2,500	\$100/\$100,000
Mobile equipment	\$2,500	\$100/\$100,000
Fidelity	\$1,000	\$100/\$100,000
Boiler and machinery	\$25,000/\$50,000	\$100/\$100,000

San Benito County Water District

Notes to Basic Financial Statements

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There have been no significant reductions in any insurance coverage, nor have there been any insurance related settlements that exceeded insurance coverage during the past three fiscal years.

13. CONTINGENCIES AND COMMITMENTS

United States Bureau of Reclamation Water Supply Contract

On April 10, 1978, the District entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service contract provides for both agricultural and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 43,800 acre-feet per year.

Second Amendment to the Contract with U.S. Bureau of Reclamation for Water Service

The District in partnership with the Santa Clara Valley Water District (SCVWD) negotiated a United States Bureau of Reclamation (USBR) Water Supply Contract Renewal in accordance with the USBR implementation of the Central Valley Project Improvement Act (CVPIA) and the 1997 Binding Agreement to Negotiate between the USBR and the District. The District also negotiated an amendment to its 1978 contract meeting the minimum requirements of the CVPIA to assure a continuing water supply in the event the Renewal Contract could not be signed, was delayed or invalidated by legal action.

On March 28, 2007, the District signed the second amendment to USBR contract. This amended contract provided for a fixed repayment obligation and repayment schedule for the specific San Felipe facilities that serve the District.

The agreement calls for fixed semi-annual payments to the USBR due on January 1 and July 1 each year as illustrated below:

<u>Fiscal Year(s)</u>	<u>Semi-Annual Payment</u>	<u>Annual Obligation</u>
2007-2016	\$ 696,076	\$1,392,152
2017-2026	971,076	1,972,152
2027-2036	3,492,303	6,984,606

The total commitment, including capital and interest components, of the repayment contract is \$98.9 million. The remaining estimated capital commitment as of June 30, 2016 is \$82.8 million. This allocation is based on the USBR plant-in-service costs for San Felipe Division facilities that are specifically for service to the District (Hollister Conduit including the San Juan Lateral, San Justo Reservoir) and the District share of San Felipe Reach 1 facilities. The SCVWD and the District partnership basis of negotiation with the USBR, including negotiation of the capital cost allocation and repayment schedule, required a subsequent agreement between SCVWD and the District. That agreement, referred to as Agreement for Repayment and Management of San Felipe Division Facilities, was negotiated and adopted by the District's Board of Directors on January 3, 2007.

Based on the USBR 2016 CVP Annual Rate Books (for the USBR fiscal year ended September 30, 2014), the net USBR capital allocated to the District was \$3,055,215 for the District's share of the "In-Basin" Central Valley Project facilities which does not include the San Felipe Division facility. This "In-Basin" capital is included in the CVP's cost of service rate to the District. Future CVP operations and maintenance rate increases are probable. Current USBR CVP rate policies and practices provide for annual rate determinations and through the supporting information provide the basis for determining those rates.

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

San Juan Infrastructure Program

Provided that if the City of San Juan Bautista has complied with the terms and conditions of the Water Infrastructure Improvement Cooperative Financing Agreement, entered into by the City of San Juan Bautista and the District on June 28, 2006, the District shall provide the City of San Juan Bautista \$2,000,000, upon receipt of recorded notice of completion coupled with the California Department of Health Services post-construction approval and certification of the Surface Water Treatment Plant and the Water Storage Facility. This amount is to be applied toward reimbursement of City of San Juan Bautista expenditures for the surface water treatment plant. To date, the City of San Juan Bautista has not complied, and is in fact taking a different approach to meeting their needs for improved water quality.

Legal Challenges to Pumping Restriction in the Delta

Through its membership fees in San Luis Delta Mendota Water Authority the District participates in the cost of the ongoing legal challenges to the biological opinions that limit the pumping in the Delta. This has resulted in an increase in the District's annual membership fee.

Zebra Mussel Infestation in San Justo Reservoir

The San Justo Reservoir, owned by USBR, is operated by the District to provide agricultural and municipal & industrial water to its customers in San Benito County. In February 2008, zebra mussels were discovered in the reservoir. The presence of zebra mussels in the Hollister Conduit and the San Felipe Distribution system has been confirmed since that time. Zebra mussels are an invasive species which attach themselves to hard substrate, thus posing a significant threat to both the ability of the District to effectively operate the reservoir as they can clog intake structures and pipelines, as well as to the reservoir's ecology. They could also spread to other water bodies. In order to continue operating the reservoir for water supply purposes and to prevent the further invasion of the water systems, the zebra mussels must be either eradicated or significantly controlled.

To achieve any solution, significant coordination among many government agencies is required to identify and implement the optimum eradication strategy. The eradication strategy must also include measures to prevent future re-infestation. Zebra Mussels have never been eradicated from a reservoir, therefore, the District's financial obligation is not known at this time.

This District is developing an eradication and control plan for the reservoir in cooperation with the USBR, Department of Water Resource and the Department of Fish and Wildlife (CDFW). USBR is in the final stages of completing the NEPA documentation required for project implementation. Final plans and specifications will be developed once the NEPA work is complete. As part of the plan, payment responsibilities will have to be negotiated. Concurrently, the District is also developing an eradication and control plan for the Hollister Conduit and San Felipe Distribution system.

Hollister Urban Area Agreement for Operation and Maintenance Services

In August 2013, the District and SSCWD each approved the Hollister Urban Area Agreement for Operation and Maintenance Services. This agreement establishes SSCWD as the contract operator for the Lessalt Water Treatment Plant and the future West Hills Water Treatment Plant. This agreement was established for a term of 5 years with options to renew for subsequent terms of 5 years. Payments for the operations of Lessalt are reflected in Contract Services. The recovery of these costs from the retailers (SSCWD and COH) are captured as a component of the finished water rates.

Hollister Urban Area Water Supply and Treatment Agreement

The District committed to finance up to \$30 million dollars of the project costs for the upgrade to the Lessalt Water Treatment plant and the construction of the West Hills Water Treatment plant. These funds were committed in two tranches. The first tranche of \$13 million dollars was made available on the effective date of the agreement and the second tranche of \$17 million dollars was made available in May 2015. Per the Water Supply and Treatment Agreement, the District obtained an additional \$4 million in

San Benito County Water District

Notes to Basic Financial Statements June 30, 2016

third party financing from City National Bank in January 2016. Additionally, COH and SSCWD were obligated to each provide half of the remaining \$3.4 million to complete the project. They contributed their funds in November, 2016. At June 30, 2016 \$25,285,044 has been spent.

Litigation

The District is subject to various legal proceedings and claims that arise in the ordinary course of business. The District would pursue or defend cases vigorously through trial unless facts develop which warrant an attempt to seek an out-of-court settlement. As of June 30, 2016 there were no claims or pending litigation against the District.

Operating Leases

The District leases its printer/copier and telephone system under separate operating leases. Rent expense under these leases totaled \$7,683 for year ended June 30, 2016.

Standby Letter of Credit

The District received an approval of the Incidental Take Permit (ITP) from the California Department of Fish and Wildlife (CDFW) for the construction site of the West Hills Water Treatment Plant (WHWTP). The ITP was required to be compliant with the Endangered Species Act, specifically for the tiger salamander. This permit allowed the District to move forward to bid and award the construction contract for the WHWTP.

In the ITP, the District identified 3 future mitigation banks that would satisfy CDFW requirements for environmental mitigation if credits are purchased at these banks. Because the mitigation banks are not yet certified and the exact cost of mitigation credits is not known at this time, the District and CDFW agreed that the District would put up a Standby Letter of Credit for the estimated potential costs for mitigation allowing the District to move forward to construction while the mitigation banks complete their certification process.

The District entered into an unsecured Standby Letter of Credit with Heritage Bank of Commerce in June, 2015 for \$896,546 in favor of CDFW. The interest rate if the Letter of Credit is drawn upon shall be the Wall Street Journal Prime plus .50%, but shall not be less than a minimum interest rate of 5%.

This Standby Letter of Credit will stay in place until CDFW certifies that the environmental mitigation has been completed. Once CDFW certifies that the District has met its mitigation requirements, the Standby Letter of Credit will be cancelled by CDFW. At June 30, 2016, there have been no draws on the Standby Letter of Credit.

14. PRIOR PERIOD ADJUSTMENT – FISCAL YEAR ENDED 2015

Pension Liabilities

In the prior year as part of implementing the requirement of GASB Statement No. 68 and 71, the District adjusted its beginning net position as of July 1, 2014 for the portion of liability attributable to periods before the year ended June 30, 2014. A pension liability of \$1,801,592 and deferred outflow of resources related to pension contributions of \$174,437 were recorded as prior year adjustments. This resulted in a net decrease of net position of \$1,627,162. This adjustment was recorded prospectively, as it was not practical for management to attempt to estimate pension expense for prior years.

San Benito County Water District

Notes to Basic Financial Statements
June 30, 2016

15. SUBSEQUENT EVENTS

Recycled Water Project

In conjunction with the Recycled Water Distribution system, the District is working to improve the recycled water storage facilities at the City of Hollister Reclamation Plant. The improved recycled water storage pond will allow the District to capture almost all of the recycled water produced during the night and weekends during the peak growing season, April through September. Construction cost of the additional storage is estimated at \$1,000,000.

Contributed Capital

In November 2016, the City of Hollister and Sunnyslope County Water District fulfilled their requirement to each provide half of \$3.4 million dollars of additional funding for the construction of the West Hills Water Treatment Plant as required by the Water Supply and Treatment Agreement. The District will recognize this contribution as Contributed Capital in fiscal year 2017.

Date of Management Review

Events occurring after June 30, 2016 have been evaluated by Management for possible adjustment to the financial statements or disclosure as of December 30, 2016 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY
INFORMATION

San Benito County Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
and Related Ratios as of Measurement Date
Cost Sharing Defined Benefit Pension Plan
As of June 30, 2016
Last 10 Years^

	Fiscal Year End	
	06/30/16	06/30/15
Measurement Date	06/30/15	06/30/14
District's proportion of the net pension liability	0.025033%	0.021190%
District's proportionate share of the net pension liability	\$1,718,231	\$1,318,536
District's covered-employee payroll*	1,441,464	1,546,276
District's proportionate share of the net pension liability as a percentage of covered employee payroll	119.20%	85.27%
Plan's fiduciary net position as a percentage of the plan's total pension liability	78.40%	79.82%

^ Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

* For the year ending on the measurement date.

San Benito County Water District
Schedule of the District's Pension Plan Contributions
For the Fiscal Year Ended June 30, 2016
Last 10 Fiscal Years[^]

	6/30/2016	6/30/2015
Contributions for the fiscal year ended		
Actuarially determined Contribution	\$ 199,675	\$ 217,870
Contributions in relation to the actuarially determined contribution	199,675	217,870
Contribution deficiency (Excess)	\$ -	\$ -
 District's covered-employee payroll*	 \$1,312,916	 \$ 1,441,464
 Contributions as a percentage of covered-employee payroll	 15.21%	 15.11%

[^] Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

* For the fiscal year ending on the date shown

Actuarial Methods and Assumptions

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS employed an amortization and smoothing policy that pays for all gains and losses over a fixed 30-year period with the increases or decreases in rate spread directly over a 5-year period. The new amortization and smoothing policy is used in this valuation.

A change in the calculation of termination with vested benefits liability was made this year to better reflect the retirement experience. After termination with vested benefits, a miscellaneous member is assumed to retire at age 59 and a safety member at age 54 rather than at earliest retirement age. The higher benefit factors at these ages results in a higher liability and an increase in normal cost.

San Benito County Water District
 Schedule of Postemployment Healthcare Benefits Funding Progress
 For the Fiscal Year Ended June 30, 2016

Actual Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
3/1/2009	\$ -	\$ 522,032	\$ 522,032	0.0%	\$ 1,524,190	34.25%
3/1/2012	\$ -	\$ 482,957	\$ 482,957	0.0%	\$ 1,797,707	26.87%
3/1/2015*	\$ -	\$ 746,011	\$ 746,011	0.0%	\$ 1,890,041	39.47%

*Most recent actuarial valuation date.

Although the plan has no segregated assets, the District does designate resources for future retiree healthcare costs. At June 30, 2016, the designated balance was \$306,944.

SUPPLEMENTARY INFORMATION

San Benito County Water District
Schedule of Net Position by Zone
June 30, 2016

	<u>District Administration</u>	<u>District Zone 3</u>	<u>District Zone 6</u>	<u>District Zone 104</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,364,213	\$ 3,297,405	\$ 14,988,231	\$ 7,672	\$ 19,657,521
Investments	-	-	2,008,038	-	2,008,038
Receivables, net	3,392	14,109	2,746,891	4,770	2,769,162
Contract receivable	-	-	905,625	-	905,625
Prepaid expenses	3,183	24,706	877,780	-	905,669
Restricted cash and cash equivalents	75,000	-	22,148,966	-	22,223,966
Zone receivable (payable) clearing	15,957	-	-	(15,957)	-
Total current assets	<u>1,461,745</u>	<u>3,336,220</u>	<u>43,675,531</u>	<u>(3,515)</u>	<u>48,469,981</u>
Noncurrent assets:					
Work in progress	-	-	20,404,683	3,068	20,407,751
Contract receivable	-	-	26,901,517	-	26,901,517
Capital assets, net	163,259	1,271,653	38,178,657	41,501	39,655,070
Total noncurrent assets	<u>163,259</u>	<u>1,271,653</u>	<u>85,484,857</u>	<u>44,569</u>	<u>86,964,338</u>
Total assets	<u>1,625,004</u>	<u>4,607,873</u>	<u>129,160,388</u>	<u>41,054</u>	<u>135,434,319</u>
Deferred Outflows of Resources					
Deferred pensions	20,673	26,223	429,946	2,146	478,988
Total Deferred Outflows of Resources	<u>20,673</u>	<u>26,223</u>	<u>429,946</u>	<u>2,146</u>	<u>478,988</u>

San Benito County Water District
Schedule of Net Position by Zone
June 30, 2016

	District <u>Administration</u>	District <u>Zone 3</u>	District <u>Zone 6</u>	District <u>Zone 104</u>	<u>Total</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,707	\$ 8,289	\$ 3,964,843	\$ 1,653	\$ 3,976,492
Accrued wages amd benefits	7,346	3,025	71,447	756	82,574
Accrued vacation and sick	10,684	7,290	158,853	-	176,827
City National Bank loan payable	-	-	295,249	-	295,249
Due to other agencies	-	-	648,206	-	648,206
Contract customer water prepayments	-	-	389,444	-	389,444
Unearned contract revenue	-	-	905,625	-	905,625
Total current liabilities	<u>19,737</u>	<u>18,604</u>	<u>6,433,667</u>	<u>2,409</u>	<u>6,474,417</u>
Noncurrent liabilities:					
Other post employment benefits	13,155	14,133	284,205	1,011	312,504
Pension liability	72,425	96,971	1,541,407	7,428	1,718,231
Deposits and retention payable	2,500	-	249,028	-	251,528
City National Bank loan payable	-	-	5,060,618	-	5,060,618
Unearned contract revenue	-	-	26,901,517	-	26,901,517
Total noncurrent liabilities	<u>88,080</u>	<u>111,104</u>	<u>34,036,775</u>	<u>8,439</u>	<u>34,244,398</u>
Total liabilities	<u>107,817</u>	<u>129,708</u>	<u>40,470,442</u>	<u>10,848</u>	<u>40,718,815</u>
Deferred Inflows of Resources					
Deferred pensions	8,037	13,703	191,298	768	213,806
Total Deferred Inflows of resources	<u>8,037</u>	<u>13,703</u>	<u>191,298</u>	<u>768</u>	<u>213,806</u>
NET POSITION					
Net investment in capital assets	163,259	1,271,653	38,178,657	41,501	39,655,070
Restricted	75,000	-	22,148,966	-	22,223,966
Unrestricted	1,291,564	3,219,032	28,600,971	(9,917)	33,101,650
Total net position	<u>\$ 1,529,823</u>	<u>\$ 4,490,685</u>	<u>\$ 88,928,594</u>	<u>\$ 31,584</u>	<u>\$ 94,980,686</u>

San Benito County Water District
Schedule of Revenues, Expenses and Changes in Net Position by Zone
For the Year Ended June 30, 2016

	District Administration	District Zone 3	District Zone 6	District Zone 104	Total
Operating revenue	\$ 11,003	\$ 2,819	\$ 5,681,609	\$ 19,435	\$ 5,714,866
Operating expenses:					
Cost of water	-	-	4,697,791	63	4,697,854
Wages and employee related expenses	100,619	101,458	1,877,215	5,682	2,084,974
Contract services	17,043	152,203	1,293,220	7,363	1,469,829
Material and equipment	2,043	6,637	147,509	2,391	158,580
General and administrative	12,698	35,123	184,641	1,182	233,644
Utility expenses	1,950	1,193	299,099	543	302,785
Depreciation and amortization	4,599	39,034	1,589,475	-	1,633,108
Total operating expenses	<u>138,952</u>	<u>335,648</u>	<u>10,088,950</u>	<u>17,224</u>	<u>10,580,774</u>
Operating income (loss)	<u>(127,949)</u>	<u>(332,829)</u>	<u>(4,407,341)</u>	<u>2,211</u>	<u>(4,865,908)</u>
Nonoperating revenue (expenses):					
Taxes and assessments	189,232	399,920	6,187,372	13,167	6,789,691
Grant revenue	-	-	1,722,454	-	1,722,454
Other nonoperating revenues	21,765	20	236,756	-	258,541
Interest and investment revenues	6,825	13,932	173,216	-	193,973
Investment gain or loss	383	833	9,251	-	10,467
Interest expense	-	-	(87,425)	(994)	(88,419)
Other nonoperating expenses	(1,137)	-	(1,703,395)	72	(1,704,460)
Net nonoperating revenue (expenses)	<u>217,068</u>	<u>414,705</u>	<u>6,538,229</u>	<u>12,245</u>	<u>7,182,247</u>
Change in net position	<u>89,119</u>	<u>81,876</u>	<u>2,130,888</u>	<u>14,456</u>	<u>2,316,339</u>
Net position, beginning of year	<u>1,440,704</u>	<u>4,408,809</u>	<u>86,797,706</u>	<u>17,128</u>	<u>92,664,347</u>
Net position, end of year	<u>\$ 1,529,823</u>	<u>\$ 4,490,685</u>	<u>\$ 88,928,594</u>	<u>\$ 31,584</u>	<u>\$ 94,980,686</u>

STATISTICAL SECTION

San Benito County Water District

Index to Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplemental information says about the District's overall financial health.

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San Benito County Water District
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Invested in capital assets	\$ 21,277,429	\$ 21,351,814	\$ 21,287,602	\$21,439,595	\$24,347,568	\$25,953,009	\$26,465,942	\$29,457,762	\$37,185,847	\$ 39,655,070
Restricted	18,930,898	20,196,864	21,019,657	23,688,429	22,583,963	22,838,009	4,509,592	27,316,844	28,132,497	22,223,966
Unrestricted	23,347,762	26,584,307	28,932,951	28,770,728	29,908,530	30,913,546	52,357,483	31,975,236	27,346,003	33,101,650
Total primary government activities net position	\$ 63,556,089	\$ 68,132,985	\$ 71,240,210	\$73,898,752	\$76,840,061	\$79,704,564	\$83,333,017	\$88,749,842	\$92,664,347	\$ 94,980,686

◇ Data Source: San Benito County Water District Finance Department

San Benito County Water District
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenue	\$ 3,423,181	\$ 2,454,207	\$ 2,096,452	\$ 2,609,670	\$ 3,091,331	\$ 4,298,964	\$ 4,676,343	\$ 3,903,177	\$ 2,843,275	\$ 5,714,866
<u>Operating Expenses:</u>										
Cost of water	3,096,345	2,905,520	2,340,552	2,508,745	2,509,450	2,730,310	2,617,249	2,535,865	1,872,250	4,697,854
Wages & employee related expenses	1,742,286	1,855,633	2,142,172	2,278,581	2,338,873	2,336,944	2,469,800	2,443,690	2,748,269	2,084,974
Contract services	813,281	658,363	1,132,845	881,913	1,063,621	840,158	879,378	893,818	1,165,888	1,469,829
Material and equipment	235,343	213,159	374,282	143,793	183,787	233,352	213,232	198,497	186,493	158,580
General and administrative	260,512	189,463	252,183	202,920	152,791	225,589	235,771	217,000	179,793	233,644
Utility expenses	172,537	139,681	181,351	116,784	161,429	151,046	165,695	199,557	272,634	302,785
Depreciation and amortization	728,277	739,967	745,157	739,121	850,709	878,749	897,783	1,080,366	1,114,107	1,633,108
Total operating expenses	7,048,581	6,701,786	7,168,542	6,871,857	7,260,660	7,396,148	7,478,908	7,568,793	7,539,434	10,580,774
Operating income (loss)	(3,625,400)	(4,247,579)	(5,072,090)	(4,262,187)	(4,169,329)	(3,097,184)	(2,802,565)	(3,665,616)	(4,696,159)	(4,865,908)
<u>Nonoperating revenue (expenses):</u>										
Taxes and assessments	6,636,680	6,982,592	6,730,305	6,059,935	5,655,874	5,441,328	5,610,264	5,806,963	6,359,153	6,789,691
Grant revenue	810,949	136,188	123,464	58,890	147,106	35,388	621,881	202,919	4,086,989	1,722,454
Other nonoperating revenues	139,055	248,986	383,713	188,224	721,271	167,396	251,101	214,385	225,935	258,541
Interest and investment revenues	1,873,475	1,815,330	944,673	375,036	632,797	437,627	330,504	167,755	114,279	193,973
Investment gain or loss	34,662	13,488	54,429	254,486	(37,469)	(150,972)	(162,661)	(45,309)	(719)	10,467
Interest expense	-	(21,394)	(44,501)	(69,279)	-	-	-	-	(1,462)	(88,419)
Capital contributions to other government	-	-	-	-	-	-	-	-	(724,648)	-
Other nonoperating expenses	(4,110)	(368,055)	(12,768)	(2,410)	(8,941)	(11,015)	(236,459)	(130,928)	(71,701)	(1,704,460)
Net nonoperating revenue (expenses)	9,490,711	8,807,135	8,179,315	6,864,882	7,110,638	5,919,752	6,414,630	6,215,785	9,987,826	7,182,247
<u>Capital Contribution:</u>										
Capital contribution	214,574	17,340	-	55,847	-	41,935	16,388	2,866,656	250,000	-
Capital contributions	214,574	17,340	-	55,847	-	41,935	16,388	2,866,656	250,000	-
Change in net position	6,079,885	4,576,896	3,107,225	2,658,542	2,941,309	2,864,503	3,628,453	5,416,825	5,541,667	2,316,339
<u>Prior period adjustment:</u>										
Pension liabilities	-	-	-	-	-	-	-	-	(1,627,162)	-
Change in net position, adjusted	\$ 6,079,885	\$ 4,576,896	\$ 3,107,225	\$ 2,658,542	\$ 2,941,309	\$ 2,864,503	\$ 3,628,453	\$ 5,416,825	\$ 3,914,505	\$ 2,316,339

◇ Data Source: San Benito County Water District Finance Department

San Benito County Water District
Water Sales by Category
Last Ten Fiscal Years
(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water Sales & Service (Blue Valve)	\$ 2,615,520	\$ 1,836,983	\$ 1,560,011	\$ 1,974,302	\$ 2,363,831	\$ 3,429,057	\$ 3,780,982	\$ 2,695,753	\$ 1,463,573	\$ 3,555,157
San Felipe - Power Charge	556,884	351,842	195,683	256,084	438,122	571,709	557,317	302,321	166,730	188,700
Transfers & Exchanges	4,711	4,592	65,014	95,908	51,672	87,996	132,862	4,089	3,611	2,819
Groundwater Charges	181,772	192,707	218,196	207,212	170,831	158,076	170,453	229,559	230,898	227,656
Service & Demand (Rural Systems)	26,430	27,928	34,980	56,295	50,304	33,096	17,512	14,201	19,165	19,435
Energy Charge (Rural Systems)	5,019	5,040	5,400	5,298	4,738	2,426	400	-	-	-
Well Permit Fees	14,353	23,284	12,919	10,598	7,169	10,878	10,785	20,468	20,390	11,003
Treatment Plant - Finished Water	-	-	-	-	-	-	-	593,291	871,995	1,634,856
Water Sales - Recycled Water	-	-	-	-	-	-	-	-	-	17,891
Other Operating Revenue	18,492	11,831	4,249	3,973	4,664	5,726	6,032	43,494	66,913	57,349
	<u>\$ 3,423,181</u>	<u>\$ 2,454,207</u>	<u>\$ 2,096,452</u>	<u>\$ 2,609,670</u>	<u>\$ 3,091,331</u>	<u>\$ 4,298,964</u>	<u>\$ 4,676,343</u>	<u>\$ 3,903,177</u>	<u>\$ 2,843,275</u>	<u>\$ 5,714,866</u>

◇ Data Source: San Benito County Water District Finance Department

**San Benito County Water District
Water Rates
San Felipe Distribution System
Last Ten Fiscal Years**

Water Year Ended February 28	Agricultural Rate	Municipal & Industrial Rate	Power Charge by Subsystem					Standby & Availability Per Acre
			2	6H	9L	9H	All Others	
Per Acre Foot								
2008	\$85.00	\$160.00	\$23.60	\$36.05	\$34.70	\$65.75	\$18.40	\$6.00
2009	\$100.00	\$170.00	\$17.25	\$19.40	\$32.60	\$62.75	\$14.85	\$6.00
2010	\$115.00	\$180.00	\$17.50	\$20.25	\$42.55	\$74.85	\$16.30	\$6.00
2011	\$135.00	\$200.00	\$22.00	\$27.30	\$49.75	\$84.35	\$21.75	\$6.00
2012	\$155.00	\$220.00	\$22.70	\$28.15	\$51.25	\$86.90	\$22.40	\$6.00
2013	\$170.00	\$235.00	\$23.35	\$29.00	\$52.80	\$89.50	\$23.10	\$6.00
2014	\$170.00	\$235.00	\$40.30	\$29.25	\$43.05	\$91.55	\$22.40	\$6.00
2015	\$170.00	\$238.00	\$41.55	\$30.15	\$44.35	\$94.30	\$23.10	\$6.00
2016	\$179.00	\$247.00	\$42.75	\$31.05	\$45.70	\$97.15	\$23.80	\$6.00
2017	\$272.00	\$363.00	\$123.10	\$75.65	\$109.95	\$162.55	\$66.05	\$6.00

◇ Data Source: San Benito County Water District Finance Department

◇ Water Year - March through February

San Benito County Water District
Principal Land Taxpayers (San Benito County Water District - Zone 6)
2015-2016

Taxpayer	Rank	Assessed Land Valuation	Percentage of Total Assessed Land Value
Property Reserve Inc	1	\$ 28,776,835	1.34%
Award Homes Inc a CA Corp	2	20,440,219	0.95%
Dobler Ranches LP	3	11,210,783	0.52%
Filice Enterprises Lp a Cal LP	4	8,976,795	0.42%
BMC Promise Way LLC A Delaware LLC	5	8,394,192	0.39%
K&S Market Inc	6	8,372,954	0.39%
Granite Rock Co #29381	7	8,175,131	0.38%
Gill, David & Susan Family Trust	8	6,525,266	0.30%
Bertuccio Orchards LP a CA Ltd Part	9	6,323,191	0.29%
San Juan Oaks LLC	10	<u>6,164,600</u>	0.29%
Assessed Largest Land Tax Payers		113,359,966	5.27%
Assessed Land Value for Other Land Taxpayers		<u>2,036,598,212</u>	
Total Assessed Land Value for Zone 6 Land Taxpayers		<u><u>\$ 2,149,958,178</u></u>	

◇ Data Source: San Benito County Assessor's Office - County Tax Roll 2015-2016

◇ 9 years prior information not available at issuance of report

◇ San Benito County Water District Zone 6 San Felipe Project Land Tax is \$.25 per \$1.00 assessed land value

**San Benito County Water District
District Debt
Last Ten Fiscal Years**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capital Lease	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
San Luis Delta Mendota Water Agency										
Delta Habitat, Conservation and Conveyance Plan (DHCCP)	\$ -	\$ -	\$ -	\$ 1,125,924	\$ 1,125,924	\$ 1,125,924	\$ 1,194,400	\$ -	\$ -	\$ -
City National Bank										
Hollister Urban Area Tranche 3/Recycled Water Loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,355,867

◇ Data Source: San Benito County Water District Finance Department

San Benito County Water District
Demographics and Economic Statistics
Last Ten Fiscal Years

Year	County of San Benito				
	Population (1)	Personal Income (2)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2007	54,948	\$ 1,969,783,000	\$ 35,848	11,576	7.2%
2008	55,022	\$ 1,954,831,000	\$ 35,528	11,466	9.6%
2009	55,068	\$ 1,945,249,000	\$ 35,324	11,383	14.2%
2010 (5)	55,269	\$ 1,968,266,000	\$ 35,451	11,378	17.2%
2011 (5)	55,524	\$ 1,964,156,000	\$ 35,029	11,199	15.9%
2012 (5)	55,781	\$ 2,163,294,000	\$ 38,030	11,253	13.9%
2013 (5)	56,003	\$ 2,224,472,000	\$ 38,619	11,233	11.1%
2014 (5)	56,231	\$ 2,417,263,000	\$ 41,486	11,206	10.1%
2015 (5)	56,445	\$ 2,565,863,000	\$ 43,643	11,166	7.6%
2016 (5)	56,648	not available	not available	not available	7.1%

◇ Data Sources:

- (1) State of California, Department of Finance (<http://dof.ca.gov/forecasting/demographics/estimates/E-1/>)
- (2) Bureau of Economic Analysis (<http://www.bea.gov/itable/iTable.cfm>)
- (3) Ed-data (<http://www.ed-data.org/county/San-Benito>)
- (4) U.S. Bureau of Labor Statistics (www.bls.gov)
- (5) These population estimates incorporate 2010 census counts

- ◇ The District encompasses all of San Benito County, with an area of approximately 1,400 square miles. Residential communities served include: City of San Juan Bautista, City of Hollister, unincorporated urban areas surrounding Hollister and Tres Pinos.

San Benito County Water District
Principal Employers, San Benito County

Company	2007			2015			2016		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Earthbound Farms				1000	1	7.19%			
Hazel Hawkins Hospital				575	2	4.14%			
San Benito Foods				500	3	3.60%			
Pride of San Juan				425	4	3.06%			
Milgard		not available		330	5	2.37%		not available	
San Benito High School District				245	6	1.76%			
Pacific Scientific				220	7	1.58%			
Semifab				200	8	1.44%			
Target				167	9	1.20%			
Safeway				153	10	1.10%			
				<u>3815</u>		<u>27.44%</u>			

◇ Data Source: City of Hollister 2015 CAFR

◇ Information for 2007 & 2016 is not available

San Benito County Water District
Central Valley Project - San Felipe Division
Water Deliveries to San Benito County

(1988-2016)

(Totals in Acre Feet)

Water Year Ended February 28	Total Delivered Through Reach 1 Bifurcation
1988	12,399
1989	11,992
1990	21,678
1991	21,512
1992	7,121
1993	11,242
1994	28,661
1995	12,631
1996	29,652
1997	28,482
1998	35,702
1999	16,143
2000	21,647
2001	24,525
2002	20,625
2003	24,381
2004	26,039
2005	24,705
2006	22,501
2007	24,750
2008	22,718
2009	17,288
2010	8,810
2011	17,456
2012	22,200
2013	19,597
2014	14,256
2015	8,834
2016	3,171

◇ Data Source: San Benito County Water District Water Delivery Report

◇ 1 Acre Foot = 325,851 gallons

◇ Water Year = March through February

**San Benito County Water District
Number of Employees by Department
Last Ten Fiscal Years**

For Fiscal Year Ended	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration & Finance	6	6	7	7	7	6 1/2	6 1/2	6 1/2	6 1/2	6 1/2
Engineering	2	1	3	3	3	3 1/5	3	3	3	3
Water Office	2	3	3	3	3	2	2	2	2	2
Operations & Maintenance	9	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	6 1/2
Water Conservation	1 3/4	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
	20 3/4	19	22	22	22	20 2/3	20 1/2	20 1/2	20 1/2	19 1/2

◇ Data Source: San Benito County Water District Finance Department

**San Benito County Water District
Operating Indicators by Function/Program
(2011-2016)**

Function/Program	2011	2012	2013	2014	2015	2016
Well Applications Processed	57	103	103	166	135	77
Number of Open Reservoirs	3	3	3	3	3	3
Active Capacity of Open Reservoirs (in Acre Feet)	30,935	30,935	30,935	30,935	30,935	30,935
San Felipe Water Usage (1)						
Agricultural (Acre Feet)	11,120	16,359	16,623	12,688	7,070	3,339
Municipal & Industrial (Acre Feet)	2,461	2,655	2,737	2,575	1,434	2,060
Groundwater Usage (2)						
Agricultural (Acre Feet)	13,046	13,776	17,467	23,765	20,977	28,105
Municipal & Industrial (Acre Feet)	5,752	5,651	5,286	5,967	6,452	4,575
Number of Vehicles						
Regular Fleet	11	11	11	11	11	11
Heavy Equipment/Vehicles	3	3	3	3	3	3
Number of Pumping Stations	4	4	4	4	4	4
Number of Pumps	20	20	20	20	20	20
Number of Subsystem Valves & Control Structures	9	9	9	9	9	9
Number of Percolation Valves & Control Structures	3	3	3	3	3	3
Miles of Pipeline Maintained by District (approx.)						
Hollister Conduit	17	17	17	17	17	17
San Juan Lateral	2	2	2	2	2	2
San Felipe Subsystem	150	150	150	150	150	150

◇ Data Source: San Benito County Water District Finance Department

◇ Fiscal Year totals unless noted otherwise

◇ 1. Central Valley Project year - March through February

◇ 2. Groundwater year - October through September

**San Benito County Water District
Operating Indicators by Function/Program
(2011-2016)**

Function/Program	2011	2012	2013	2014	2015	2016
Federal Water Supply Contract (1)						
100% Total Contract Entitlement - 43,800 Acre Feet						
Annual Allocation Consisting of:						
Irrigation Contract (in Acre Feet)	28,440	15,298	7,649	0	0	1778
Municipal & Industrial Contract (in Acre Feet)	8,250	4,167	3,889	2778	2063	4538
Number of Customer Accounts						
San Felipe						
Agricultural Contract	496	497	496	509	515	582
Municipal & Industrial Contract	77	79	80	78	78	78
Small Parcel	471	469	471	460	455	392
Rural Water System Customer Accounts	28	23	10	10	10	10
Groundwater Wells						
Agricultural (active)	419	423	421	417	431	432
Agricultural (inactive)	211	211	207	209	208	210
Domestic (active)	682	684	650	660	673	692
Domestic (inactive)	165	166	176	176	176	176
Recycled Water	0	0	0	0	0	36
Water Treatment Plant	0	0	0	1	1	1
Treatment Plant Water Provided (in Acre Feet) (2)	n/a	n/a	n/a	1206	1178	1864

◇ Data Source: San Benito County Water District Finance Department

◇ Fiscal Year totals unless noted otherwise

◇ 1. Central Valley Project year - March through February

◇ 2. Water was provided to Water Treatment Plant in 2011-2013, but San Benito County Water District took ownership in September 2014

San Benito County Water District

Facilities

United States Bureau of Reclamation Facilities

The District is responsible for operation and maintenance of the following United States Bureau of Reclamation project facilities:

District operated and maintained:

San Justo Reservoir:

10,300 acre-feet capacity

Outlet - 60 inch pipe, 0.84 miles, capacity of 85 cfs

Hollister Conduit:

54 and 60 inch pipe, 17.03 miles, capacity of 93 cfs;

San Juan Lateral:

42 inch pipe, 2.11 miles, capacity of 45 cfs

Facilities operated and maintained in conjunction with Santa Clara Valley Water District

San Felipe Reach 1:

Pacheco Pumping Plant-

approximately 300 ft lift, 12 pumps, total capacity of 600 cfs with a total installed horsepower of 24,000

Pacheco Tunnel-114 inch pipe, 5.23 miles, capacity of 480 cfs.

Pacheco Conduit---120 inch pipe, 7.93 miles, capacity of 480 cfs.

San Benito County Water District Facilities:

San Felipe Distribution System:

4 Pumping Stations (consist of 20 pumps with a total capacity of 132 cfs,
and total installed horsepower of 2,800)

9 Subsystem Valve and Control Structures, total capacity of 196 cfs.

3 Percolation Valve and Control Structures, total capacity of 29 cfs.

San Felipe Subsystem Pipelines (diameters range from 6 to 36 inches; approximately 150 miles)

Water Treatment Plant - Lessalt Water Treatment Plant

San Benito River System:

Hernandez Reservoir Capacity: Total: 30,000 ac. ft.

Flood Control: 11,500 ac. ft.

Active Capacity: 17,300 ac. ft.

Paicines Reservoir 3,335 ac. ft. capacity

Paicines Canal (50 cfs) approx. 8 miles

Paicines Canal Diversion Facilities

(Milton Diversion Dam, Hill Gate, and Sand Gate-50 cfs)

Dos Picachos Diversion (capacity of 4.75 cfs)

◇ Data Source: San Benito County Water District Engineering Department